FINANCIAL TIMES

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No. 29,997 Monday August 4 1986 D 8523 B

Ketchup in the EEC budget works, Page 6

World news

Business summary

Malaysian premier poised for victory

The National Front coalition of Malaysian Prime Minister Dr Mahathir Mohamad is poised to return to power in the country's general election, but its Chinese partner, the Malaysian Chinese Association (MCA), lost substantial ground to the opposition.

With 55 of the 177 parliamentary seats declared, the National Front, which groups 13 parties, has won 42 seats. The Chinese-based opposition Democratic Action Party won 10 seats and three went to the independents. The fundamentalist Party Islam failed to make the sizeable gains observers had predicted.

Dr Mahathir called the elections a full year ahead of his five-year term to seek a fresh mandate for tough measures to tackle the economic recession, and to counter a growing challenge from his former deputy Datuk Musa Hitam.

Terror suspect held

West German police arrested Eva Haule-Frimpong, believed to be a leading member of the Red Army Fraction and suspected of involvement in the murder last month of Siemens executive Karl-Heinz Beckurts in Munich. Page 2

Emminger dies

Otmar Emminger, a former head of West Germany's central bank and an expert on international currency, died in the Philippines aged 75. Page 2

Genscher criticised

Bavarian leader Franz-Josef Strauss called on West German Foreign Minister Hans-Dietrich Genscher to give up his post at the next election, saying it was "time for change."

Aircraft bomb alert

A chartered aircraft bound for Canada was evacuated and searched at Shannon airport, Dublin, Ireland, after a passenger was detained on suspicion of planting a bomb on board.

Fruit row stalemate

Fresh talks between the US and the EEC aimed at resolving a trade dispute over citrus fruit ended in stalemate.

Dissident's reunion

Former Soviet dissident Anatoly Shcharansky said his family had permission to leave the Soviet Union and would join him in Israel within three weeks.

Peace activists held

Two peace activists from New York and a member of the Soviet "Group of Trust" were held by police for an hour after trying to stage a protest against nuclear energy in Gorky Park, Moscow.

Dry cotton fields

Drought has hit two large cotton growing areas of the Soviet Central Asian republic of Turkmenistan, where river and canal water levels are half their usual level.

Liberian tanker hit

The Liberian oil tanker Mercedes was damaged by a rocket fired from an Iranian helicopter near the south of the Gulf. The vessel headed for Dubai in the United Arab Emirates.

Sudanese protest

Thousands of students marched through Khartoum demanding that Sudan break diplomatic relations with Morocco over last month's talks between King Hassan and Israeli Prime Minister Shimon Peres.

Race car hits crowd

A woman was killed and nine other people were hurt when a race car flew off the track and ploughed into spectators in Sydney, Australia.

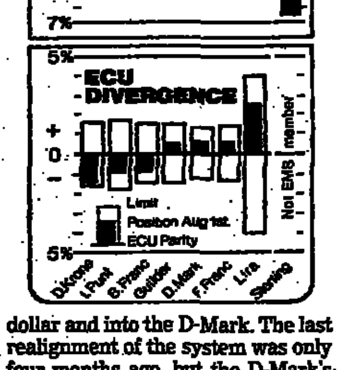
Micro mountaineer

World microlight champion Pascal Morel piloted the first microlight plane to land on top of Europe's highest mountain, Mont Blanc, at 15,776 ft (4,808m).

US wheat sale to Moscow attacked

AUSTRALIAN Wheat Board attacked US decision to subsidise sale of up to 4m tonnes of wheat to the Soviet Union, saying it would further depress world market prices. Page 3

EMS: The D-Mark continued to advance, gaining strength from good West German trade figures in June and the contrast between the disappointing US trade figures, encouraging the movement out of the dollar and into the D-Mark. The last realignment of the system was only four months ago, but the D-Mark's rise against the other EMS currencies in recent weeks threatens to cause renewed strains, as the West German currency moves within sight of overtaking the French franc. The Danish krone remained the weakest member last week, but stayed within its agreed limits.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO share prices closed slightly lower on Saturday, falling 37.14 to 17,284.79, as the market continued its adjustment after recent steep rises.

MALAYSIAN politician Tan Koon Swan, man at the centre of the stock market crisis in Singapore and Malaysia, has agreed with three broking houses to sell shares in two companies related to him. Page 19

FRENCH car production rose 5.6 per cent for the first half of 1986 to almost 1.5m and car exports increased 1.8 per cent.

YUGOSLAV Government has ordered price cuts to head off three-figure inflation and introduced tax breaks to encourage exports. Page 3

US semiconductor manufacturers called on European electronics industry to support US-Japanese semiconductor trade pact. Page 4

US BANKS Maryland National and American Security are to merge in a deal worth $438m combining their total assets to about $12.9bn. Page 19

PETROFINA, Belgian oil and energy group which owns Charterhouse Petroleum, British oil company, has reported a 8.4 per cent rise in net consolidated profits for the first half of this year to BFr 9.46bn ($219m). Page 19

ALUMINIUM Company of Malaysia has attracted virtually no interest among minority shareholders in its 32.6m ringgit ($12.4m) rights issue leaving Alcan of Canada the principal shareholder with almost the entire issue. Page 19

COMPAGNIE GÉNÉRALE Maritime, French state shipping group, is taking over for a symbolic franc Chargeurs Reunis, lossmaking cargo and container ship subsidiary of the private Chargeurs transport and communications concern. Page 17

NATIONAL INTERGROUP, former US steel company diversifying into distribution, earned a tiny profit of $1.5m in the first quarter of its financial year on sales of $1.1bn. Page 19

Commonwealth bid to co-ordinate sanctions on SA

BY ROBERT MAUTHNER, MICHAEL HOLMAN AND PETER RIDDELL IN LONDON

COMMONWEALTH leaders meeting in London to discuss South Africa were last night considering the establishment of a committee to co-ordinate new measures against Pretoria with the European Community, the US and Japan.

President Kenneth Kaunda of Zambia, one of the main supporters of the proposal, said the committee's brief would be to seek the implementation of specific measures agreed at the London summit of the leaders of Australia, the Bahamas, Britain, Canada, India, Zambia and Zimbabwe.

The Zambian leader, speaking at a meeting in London yesterday of the Diplomatic and Commonwealth Writers' Association before the summit formally opened, seemed resigned to the possibility that Britain would not endorse what he called "a programme of action," and therefore would not be represented on the committee.

The proposal received a cool response from Mrs Margaret Thatcher, the British Prime Minister. A British official said: "It is not formally tabled. I would not have thought there was any merit in it. Why should it be necessary? We have heard no case for it."

The three countries most likely to be represented on the committee, said Dr Kaunda, were Australia, Canada and India, whose leaders have already committed themselves to additional measures against Pretoria, as have the leaders of Zimbabwe and the Bahamas.

Such a procedure is seen as an attempt by Britain's partners in the Commonwealth to take into account Mrs Thatcher's view that any international measures against South Africa must be co-ordinated with the US, the EEC and Japan, if they are to be effective.

The opening three-hour session of the three-day summit yesterday afternoon, chaired by Sir Lynden Pindling, Prime Minister of the Bahamas, heard Mr Malcolm Fraser, the former Australian Prime Minister, and General Olusegun Obasanjo, the former Nigerian leader, review the visit to South Africa by the Commonwealth Eminent Persons Group, of which they were co-chairmen. The report of the group, established after the Commonwealth summit in Nassau last October, concluded that the Pretoria Government was not ready to start constitutional talks with black leaders.

The meeting also heard a report from Sir Geoffrey Howe, the British Foreign Secretary, who has visited southern Africa twice recently on behalf of the EEC.

"It was remarkable how the views of both coincided," said Sir Lynden. Commonwealth leaders agreed, he said, that there was "no genuine intention on the part of the South African Government to dismantle apartheid."

A British official said later: "I am not sure that Mrs Thatcher agrees with that at all," but said she did agree that adequate progress in South Africa had not been made since the Nassau summit.

When the summit resumes this morning, the leaders will consider what new sanctions should be taken against South Africa.

Although leaders of the six countries already in favour of new measures do not rule out the possibility that Mrs Thatcher might concede the need for further action against Pretoria, at the beginning of the meeting there appeared to be insufficient common ground to allow a joint stand.

Dr Kaunda made clear that the new measures drawn up in Nassau for "consideration" in London were the minimum he expected. They include a ban on air links with South Africa and an end to imports of agricultural products from the republic, two moves Mrs Thatcher is known to oppose. "There is no way we can go below Nassau," said Dr Kaunda.

South Africa's not-so-pampered whites, Page 15

'Flexible' Thatcher aims to lower temperature

By Our Political Editor in London

MRS MARGARET Thatcher, the British Prime Minister, yesterday made it clear to other Commonwealth leaders at the London summit that she approached the South African issue with "a flexible frame of mind" while reiterating her opposition to general economic sanctions.

A British official last night stressed that her stance was aimed at lowering the temperature in the hope of reaching agreement. He believed that the other Commonwealth leaders appreciated her position.

After the first formal session and a series of bilateral meetings between Mrs Thatcher and the other Commonwealth leaders, the British official claimed that the other participants were not seriously pressing for general economic sanctions, knowing the Prime Minister's opposition to them.

Mrs Thatcher made clear in the meetings with the other leaders that general sanctions had never worked in the past and could damage any hope of achieving progress *in South Africa by peaceful means.* Last night, British officials declined to rule out any alternative options for limited measures to be discussed today and tomorrow.

The British side also believes there is now a general recognition by the Commonwealth of the need for co-ordination with countries outside the Commonwealth. This refers specifically to the EEC, whose initiative does not run out until the end of September and the seven nations represented at the world economic summit, especially the US and Japan.

Moreover, the Prime Minister apparently feels that other Commonwealth countries recognise that, apart from Britain with its large continuing commercial links with South Africa, other countries are not in a strong position to take general measures as opposed to gestures.

British officials also stressed last night that at the pre-conference meeting there was no mention of any departure from the Commonwealth, or of retaliation against Britain.

At the first session of the conference, Sir Geoffrey Howe, the British Foreign Secretary, reported in detail on his two visits to southern Africa. His conclusion was that outside countries must go on pressing the Pretoria Government.

Sir Geoffrey said his experience in South Africa has re-inforced his view that comprehensive sanctions would not induce the South African Government to move under foreign pressure.

Hopes rise at Opec over quota cuts

BY RICHARD JOHNS IN GENEVA

DELEGATES at the Organisation of Petroleum Exporting Countries talks in Geneva claimed yesterday that additional pledges had raised the volume which might be prevented *from pouring into* a saturated market from the 1.925m barrels a day (b/d) said to have been obtained from nine members last Thursday.

Such a reduction could appreciably stabilise a market depressed by an Opec rate of more than 20m b/d sustained last month, and stop the slide in prices notwithstanding an enormous overhang of supply, industry executives and analysts contacted in Geneva at the weekend agreed.

The Opec delegates seek an agreement on voluntary output cuts to 18m-18.5m b/d.

It was still uncertain last night, as ministers prepared for another meeting following further consultations, how binding any commitments would prove, given the suspicions and differences among the 13 members. The consultations had included some by Dr Subroto, the chief Indonesian delegate.

The general understanding is that pledges will be valid only from the beginning of September because of orders by customers for August.

As ever, the position of Saudi Arabia is critical, and was also somewhat ambivalent, last night.

After a meeting in Riyadh on Saturday night of the Council of Ministers, chaired by King Fahd, the Saudi Government issued a statement yesterday saying that it could not reduce its production below a level necessary for its economic development.

"At the same time it has no objections to any country producing as much as it needs," a Saudi official said.

The implication was that Saudi Arabia was prepared to continue the "price war" unless it was satisfied by the extent and validity of undertakings regarding output restraint by other members. Certainly it was directed at this conference which enters its eighth day today.

There was still some confusion yesterday as to how far Saudi Arabia was prepared to lower output.

After the Saturday night ministerial session, some delegates had the impression that the Saudis would settle for no less than 5m b/d, but the belief was that they might be *prepared to go down to* 4.5m-4.6m b/d if satisfied by promises of other members.

Earlier last week, Sheikh Ahmed Zaki Yamani, the Saudi Oil Minis-

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Oil and gas exploration survey, Page 9–13; Lex, Page 16

Dublin devalues by 8% in move to aid exports

BY HUGH CARNEGY IN DUBLIN

THE PUNT was devalued by 8 per cent within the European Monetary System at the weekend in a move sought by the Irish Government to ease pressure on its exporters caused by the slide in sterling and the dollar.

More than 30 per cent of Ireland's exports go to Britain and about 10 per cent to the US. That trade was under threat from a rapid appreciation of the punt to 95 pence and $1.41 at close of business last Friday, compared with about 87 pence and $1.30 in April. A year ago, the punt stood at less than 80 pence. Total exports amount to just under £10bn.

It was not immediately clear if there would be a similar devaluation in the so-called "green pound" affecting EEC farm prices. The Irish "green pound" was devalued in April and another adjustment would be worth up to I£90m to Irish farmers in an otherwise poor year for agriculture.

Mr John Bruton, the Minister of Finance, called the recent levels artificial. "Irish companies exporting to the US and Britain or other parts of the dollar area were very suddenly, very unexpectedly – and in a way that had not been planned by our Government or by them – at a disadvantage pricewise in trying to sell their goods."

The devaluation, which came at the start of an Irish bank holiday weekend, was the ninth realignment in the EMS since 1979 and the fourth involving a single currency. It was arranged in a series of telephone calls late on Friday and early on Saturday between Dublin, European community headquarters in Brussels and the capitals of the other seven EMS members.

The new rate for the punt is Ecu 0.764976, compared with Ecu 0.712956. Dublin is hoping that the punt will fall to below 90 pence and $1.35.

The other EMS currencies remain unchanged from the levels set in the last realignment in April.

Despite pressure in Ireland then for a devaluation, the Fine Gael – Labour Government resisted a change in the punt in April, hoping to gain an advantage in inflation terms because of cheaper imports from the strengthening position of its currency.

But it was forced to act as the rise against sterling and the dollar continued unchecked, threatening to push up interest rates and compromise jobs in the export sector.

The devaluation, the second for the punt within the EMS, was welcomed by the Confederation of Irish Industry and by the opposition Fianna Fail party. But Mr Michael O'Kennedy, Fianna Fail spokesman on the economy, said it did not solve the structural problem caused by the Irish currency's close links to sterling, a non-EMS currency.

Mr Bruton said the devaluation would add about 0.5 per cent to inflation this year, bringing the annual rate above the 3 per cent level previously forecast.

Background, Page 2; Currencies, Page 30

Japan yields to US demands on microchip price monitoring

BY CARLA RAPOPORT IN TOKYO

THE US Government intends to monitor the pricing practices of Japanese semiconductor operations in 16 countries worldwide, including six European countries and most of Asia.

According to a side agreement of last week's US-Japan accord on semiconductor trade, Japanese companies will be obliged to report net price data for nearly 90 per cent of the chips they produce and sell in designated foreign countries.

This side agreement lists these countries as Britain, France, West Germany, Sweden, Italy, Ireland, Canada, Brazil, China, Malaysia, Mexico, Philippines, South Korea, Singapore, Taiwan and Hong Kong.

The controversial third-country price monitoring system – aimed at preventing Japanese companies from dumping chips in the US through third countries – has already angered EEC officials, who have said they might take action under the General Agreement on Tariffs and Trade (Gatt). Further, prominent legal authorities in Japan doubt whether the system is enforceable under Japanese law.

The side agreement also reveals that Japan will submit net price data for "representative product types" within the product categories which will be monitored.

Historically, price monitoring systems have primarily collected gross price data or invoice prices.

In providing net price data, Japanese companies will have to include their sales expenses and the profits of their sales subsidiaries in foreign countries to the Ministry for International Trade and Industry (Miti). Miti, in turn, will pass it on to the US.

One of Japan's leading chip makers has estimated that it will need 30 extra employees to cope with this monitoring system worldwide. "The system is punitive and humiliating, but we have to accept it, we are forced to accept it," an executive with a major chip maker said last week.

In addition to providing net price data on the representative product types in each category, Japan has agreed to provide gross price data on all other products in each category. The product categories cover memory chips for computers, microprocessors, microcontrollers, and custom-designed chips.

The side agreement between the two countries on increased market access for US companies in Japan is less worrisome to Japanese industry executives. This agreement states that Japan "recognises the US semiconductor industry's expectation that semiconductor sales in Japan of foreign companies will grow to slightly above 20 per cent."

However, industry officials say that this clause is not legally binding. As a result, most are sceptical about whether it will be achieved.

This side agreement between the two countries also allows for the expansion of its list of third country monitoring.

Reaction to chips deal; Cloud over Gatt talks, Page 4; Editorial comment, Page 14

Westinghouse plans link with Plessey

BY DAVID THOMAS IN LONDON

PLESSEY is set to announce a joint venture with Westinghouse of the US in an attempt to provide a new early warning radar system to the Royal Air Force. The joint venture is one of two US deals which Plessey hopes will give it a stronger platform for resisting the takeover proposal by the General Electric Company (GEC).

Plessey is also likely to announce this week that Stromberg-Carlson, its US telecommunications equipment subsidiary, has won another trial digital switch order from one of the seven regional Bell holding companies.

Plessey says that both these decisions show it is strong enough to compete in world markets without being taken over by GEC.

It is stressing them as reports suggest that Mr Paul Channon, UK Trade and Industry Secretary, will announce his response to the Monopolies and Mergers Commission inquiry into GEC's bid this week.

The Department of Trade and Industry refused to comment on these reports at the weekend.

Plessey will announce tomorrow that Westinghouse will give it some of the work on the airborne radar if the Boeing early warning (Awacs) system, on which Westinghouse is a principal sub-contractor, is successful in winning the RAF contract.

The Ministry of Defence is evaluating several bids, including that from Boeing with its Awacs system, which it invited after becoming dissatisfied with the rate of progress by GEC on the Nimrod early warning system.

Besides evaluating the alternative bids, the MoD has also given GEC until September to demonstrate improvements to Nimrod.

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CONTENTS

Paris cancels concessions for two TV channels

BY PAUL BETTS IN PARIS

THE FRENCH conservative government has cancelled the operating concessions granted by the former socialist administration to operate France's two private commercial television networks.

The move, announced at the weekend, had long been expected and forms part of the sweeping *reform* of French broadcasting now being launched by the right. New broadcasting legislation, which will privatise the country's oldest and largest state television network TF-1 and lead to the creation of a new broadcasting and communications regulatory commission, is due to complete its passage through parliament this week.

Mr Jacques Chirac, the Prime Minister, had warned last month that the decision to cancel the concessions for the so-called *fifth* channel known as "La 5" and for the sixth channel known as "TV6" would be taken soon.

The right had pledged to cancel the concessions during this year's parliamentary election campaign after President Francois Mitterrand took the controversial decision to grant the concession to operate the fifth channel to a partnership between Mr Jerome Seydoux, chairman of the Chargeurs transport and communications group, and Mr Silvio Berlusconi, the Italian television entrepreneur.

The fifth channel came on the air last February. After a shaky start, the network, which specialises in American soap operas and television games, has started to see its audience rise.

Mr Christophe Riboud, one of the main shareholders in the private network together with Mr Seydoux and Mr Berlusconi, warned that the owners of the private network will take the issue to the Conseil d'Etat, the leading French judicial body, to appeal against the government decision and seek compensation.

The sixth channel first came on the air also at the end of last February. It specialises in music and video clips of pop stars and is operated by a group led *by Gaumont, the French* film production company, a private radio station and two advertising concerns.

Both channels are expected to stay on *the air* for the next few months until the new broadcasting and communications regulatory commission is set up.

Anticipating the government's *move* to cancel the concessions, Mr Seydoux is understood to have been discussing with new partners, including the French Havas advertising and communications group and the Luxembourg-based CLT broadcasting group, to form a new partnership to operate the fifth channel.

Yeutter mission fails to resolve pasta dispute

BY TIM DICKSON IN BRUSSELS

MR CLAYTON YEUTTER, the US Trade Representative, flew back to Washington yesterday apparently no *nearer a settlement* of the so-called Trans-atlantic "pasta war."

Talks with Mr Willy de Clercq, the EEC External Relations and Trade Commissioner, which began in Brussels on Saturday, broke up after breakfast with the two side "about the same distance apart as they were at the beginning," according to one US official.

The continued impasse is a particular blow for the Americans, *who are eager for* a quick settlement and have resisted the EEC's earlier suggestion of a four-month truce.

The starting point in the dispute was the US belief that its exports of citrus fruits to Europe were being damaged by the network of Community trade agreements with Mediterranean countries (exporters *of the same products).*

Last June the US retaliated by significantly raising duties on EEC pasta imports (mostly originating in Italy).

The EEC in turn responded by increasing levies on US *walnuts and fresh lemons.*

The row has been further complicated by US insistence that final agreement on a separate semi-steels dispute be made conditional on the successful outcome of the pasta problem.

Mr de Clercq reported back yesterday to EEC diplomats in Brussels. Mr Yeutter is due to consult the Economic Policy Council in Washington. Further telephone discussions between the two men are likely today.

OBITUARY

Dr Otmar Emminger

DR OTMAR EMMINGER, former president of the West German Bundesbank and one of the most influential figures on the international monetary scene in the turbulent 1960s and 1970s, has died at the age of 75 in Manila, a spokesman for the Central Bank in Frankfurt announced yesterday.

Dr Emminger, who headed one of the most powerful and independent of the world's central banks between 1977 and 1979, was in the Philippines acting as a financial advisor for Mrs Carazon Aquino's new government. The appointment testified to an enduring prestige and reputation which survived long after his official retirement *seven years ago.*

Dr Emminger was born into a Catholic family in Bavaria in 1911. After World War II he was, as a director of the Bank Deutscher Laender (the forerunner of the modern Bundesbank), closely involved in West Germany's post-war "economic miracle."

After a six-year spell as an executive director of the IMF in Washington, he served as Vice-President of the EEC's key monetary committee between 1958 and 1977, combining that job with stints first as chairman of the IMF's "group of 10" deputies, and then at the head of the powerful Working Party Three of the OECD in Paris.

His reward — the leadership of the central bank where he had served for almost three decades — came surprisingly late.
R.C.

US 'dropped arms talks plan' after protest

By Reginald Dale in Washington

PRESIDENT Ronald Reagan dropped a proposal to involve the UK and France in future arms control talks with the Soviet Union after a "strong protest" from Mrs Margaret Thatcher, the British Prime Minister, the Washington Post reported yesterday.

Mr Reagan planned to include the idea in the letter that he sent to Mr Mikhail Gorbachev, the Soviet leader, on July 25, the newspaper said. Mrs Thatcher, however, told Mr Paul Nitze, Mr Reagan's senior arms control adviser, that the proposal did not conform with the UK Government's conditions for entering negotiations on the British nuclear deterrent.

The UK position has been that it would consider joining strategic arms control negotiations only if the US and the Soviet Union had already reduced their arsenals so radically that the relatively small British deterrent became an important element in the strategic balance.

Mr Reagan's original proposal, said the Post, was to involve the UK and France in multilateral discussions with Washington and Moscow on reducing strategic weapons below the 50 per cent cut that Mr Reagan and Mr Gorbachev agreed in principle at last November's US-Soviet summit in Geneva. Mr Nitze briefed Mrs Thatcher on the plan during a visit to London last month.

Also dropped from the final text was a suggestion that the US would reduce the frequency of its nuclear weapons tests in parallel with the proposed reductions in strategic weapons, the newspaper said. Instead, Mr Reagan reverted to the standard US position that a complete nuclear test ban can be an "ultimate goal" only when nuclear weapons have been eliminated.

The most striking point of the two and a half page letter, which has not been made public, was Mr Reagan's willingness to get down to specifics in bargaining over his strategic defence initiative (Star Wars), according to the Post.

Mr Reagan reportedly told Mr Gorbachev that the US would continue for the next five years to research, test and develop weapons under the strategic defence programme, as permitted by the 1972 Anti-Ballistic Missile treaty. If the new technologies were shown to be feasible by 1991, the US and the Soviet Union should then discuss a transition to a period of superpower reliance on defensive rather than offensive weapons.

Death threat to hostages

The secretive Islamic Jihad Organisation denied sending letters to anyone through Mr Lawrence Jenco, the US hostage father released one week ago and threatened to kill the American captives if its demands were not met, Nora Boustany reports from Beirut.

The latest communique, published by the leading An Nahar daily yesterday, was accompanied by a black and white photograph of Mr David Jacobsen, the director of the American University hospital, kidnapped in West Beirut over a year ago.

Commonwealth heads of government at Marlborough House yesterday. Back row, left to right: Mr Rajiv Gandhi, Prime Minister of India; Mr Brian Mulroney, Prime Minister of Canada; Sir Shridath Ramphal, Commonwealth Secretary General; Mr Robert Hawke, Prime Minister of Australia and Mr Robert Mugabe, Prime Minister of Zimbabwe. Front row: Mrs Margaret Thatcher, British Prime Minister; Sir Lynden Pindling, Prime Minister of the Bahamas and Dr Kenneth Kaunda, Prime Minister of Zambia.

US unions face crucial challenge

Terry Dodsworth analyses the bitter dispute at USX

AMERICAN trade unionism, battered and bruised by years of stagnation in US basic industry, is facing a crucial challenge to its future in the bitter dispute that has broken out at USX, the former US Steel. If the battle is lost, the United Steelworkers' Union (USW) will not only have to retreat on wages and conditions in the industry. It will also have to accept a further fragmentation in the united front of its membership — the formidable "solidarity" that has given it much of its strength in the post-war era.

On the face of it, the odds are stacked against the USW. Its contestant is the biggest and financially the strongest of the leading US steel companies, and because of its large energy division it has the ability to withstand a long strike. It also has a most determined and intransigent management.

The company threw down the gauntlet to the union a short while ago when it renamed itself USX and set up steel as a self-standing unit. Steel, it implied, was no longer central to the group (it now accounts for just 30 per cent of sales), and if the union did not behave the steel business would be simply cut back or hived off.

"It is as though the steelworkers had marched to the edge of the precipice, joined hands, and jumped off together," said one analyst last week.

Yet there is some logic in the USW's brinkmanship. This lies in its own strategy for the steel industry and its feeling that to give way to USX in the current negotiations would undermine the unity of the union. The key to this approach is the union's view that steelmaking in the US can be reconstructed rationally—but only if companies like USX are prevented from ratchetting down wages to create competitive advantages which will set workers against each other and eventually destroy capacity elsewhere.

What the union wants is a concerted, industry-wide reorganisation that does not place most of the burden of change on the shop floor worker. Banks and shareholders and the Government should also make their contribution to rationalisation, says the USW—the financiers by funding the reconstruction, and the Government by abandoning its laissez faire attitude, getting involved in the industry, and bringing in more protection from imports while the reorganisation goes on.

While the approach implies some run-down in capacity, it seeks to avoid the wholesale redundancies that are forecast if market forces continue to ride roughshod over the industry.

This strategy was threatened, union analysts argue, by the steel companies' abandonment of the industry-wide joint bargaining committee earlier this year. The union saw the hand of the USX in the decision to go back to individual company wage negotiations rather than the established system of national agreements.

Without plant bargaining, USX has been freed to use its muscle to gain an advantage over its competitors by forcing its wages lower than the rest of the industry. It could thereby push other companies out of the business, achieving the capacity reductions by force which the union wants to bring in through agreement.

The USW has countered the abolition of the joint bargaining committee by introducing a new co-ordinated approach to negotiations this summer aimed at giving the different companies relatively equal wage costs. It has accepted significant wage and benefit cuts at the other steel groups. But the biggest cuts have gone to companies like Wheeling-Pittsburg where the reductions were the quid pro quo for keeping the company in business and capacity in operation.

In the negotiations at USX, this strategy was threatening to fall apart. Although details of the bargaining have been kept officially secret by both sides, the company was apparently seeking cuts in wages and benefits of around $3.50 an hour, a demand that would have pushed its wages well below the level of the rest of the industry. Estimates suggest that its labour costs would have dropped to a maximum of $22 an hour, against around $22.50 at Bethlehem, for example, and $22.20 at National.

USX's resolve to force through these reductions seems to have been stiffened by the bankruptcy filing three weeks ago of LTV, the second biggest US producer, which is now likely to press for a new round of wage cuts.

Moreover, the USX management has set itself firmly against compromise in two areas where the USW has won significant victories with the other companies this year. The company refused to offer stock and profit sharing in return for wage concessions, and it refused to moderate its use of contract labour, a practice that has helped USX slim its unionised labour force from 44,000 four years ago to 21,200 today.

The union believes it would be betraying workers in other steel companies if it allowed USX to get away with a deal that did not concede on these two points. "Why should we reward a company which is not in dire straits and which is opposed to us?" asks Mr Michael Locker, an independent adviser to the USW.

But can the USW win this dispute? While no-one on the union side minimises the strength of the company's position, the USW does have some cards in its hand. It has $200m in its strike kitty, and the theoretical ability to keep its USX members out on strike for up to 18 months. It also reckons that USX will be losing around $3m a day during the dispute, at a time when it will not be flush with cash—oil at $10 a barrel means USX is much weaker than it was nine months ago.

Finally, USX management could at some stage come under pressure from shareholders. When Mr David Roderick, the present chairman, took over the company in 1979, the share price was hovering between $17 and $24. Last Friday, it was bumping along at $15½—and that is after spending billions of dollars acquiring its two big energy companies, Marathon and Texas Oil and Gas.

Seven die in Jamaican political violence

BY CANUTE JAMES IN KINGSTON

AN ATTEMPT to bring an end to several years of sporadic political violence in Jamaica appeared in jeopardy yesterday. *Armed policemen and soldiers* patrolled tense sections of Kingston, the capital, and neighbouring Spanish town following violent outbreaks which *have left seven people* dead since local government elections last Tuesday.

In the latest incident two brothers were shot dead by a gang. Earlier a woman was dragged from her home, accused of being a supporter of the opposition People's National Party which won Tuesday's *elections and stoned to death.*

Mr Herman Ricketts, the Commissioner of police, has placed an indefinite ban on marches and demonstrations and has *said the security forces are in* control in the troubled areas.

The violence began on election day and intensified following the counting of the votes which showed the Social Democrat PNP led by Mr Michael Manley, a former Prime Minister, getting 57 per cent of the votes with the rest going to the conservative Jamaica Labour Party, led by Mr Edward Seaga, the Prime Minister.

The outbreaks of violence followed a relatively calm campaign by the parties. *Just after* the date for the elections was announced Mr Seaga and Mr Manley issued a joint public appeal for political calm. The *political parties have said* repeatedly that they give no patronage to political thugs.

Mr Seaga and Mr Manley now appear to be worried that the current unrest will get out of hand damaging the island's fragile economy, *particularly its* tourist industry. In an appeal for an end to the violence Mr Seaga *said*: "To those who may seek to continue to foment unrest I would remind them that the Government will not hesitate to take steps necessary to ensure law and order."

Leading W. German terrorist captured

By Rupert Cornwell in Bonn

WEST GERMAN police have captured the 32-year-old Ms Eva Sybille Haule-Frimpong, believed to be a leading member of the Red Army Fraction (RAF), in what *could be a* major breakthrough against resurgent left wing terrorism here.

Ms Haule-Frimpong was arrested, along with two other suspected terrorist accomplices, at an ice cream bar in Ruesselsheim near Frankfurt on Saturday afternoon, according to a police spokesman she was in possession of a stolen high-calibre pistol and 80 rounds of ammunition, and of German and Belgian identity cards issued under different names.

The West German authorities have been seeking Ms Haule-Frimpong for more than two years in connection with various terrorist attacks here, including an attempted bombing of a Nato training centre at Oberammergau in Bavaria in December 1984.

But the search took on new urgency after the assassination near Munich three weeks ago of Mr Karl Heinz Beckurts, the senior Siemens executive, and his driver, for which the RAF have claimed responsibility.

Her capture may well be a direct result of the record DM 3m ($966,000) reward offered last week by private sources—almost certainly from West German industry—for information leading to the capture of Mr Beckurt's killers. Mr Friedrich Zimmermann, the Interior Minister, said last night that the "decisive tip-off" came from the general public, although he gave no further details.

The weekend breakthrough follows renewed alarm here that a terrorist "autumn offensive" could be in the offing.

Prem set to head coalition

By Peter Ungphakorn in Bangkok

GENERAL Prem Tinsulanonda *is expected to be reappointed* as Prime Minister of Thailand today shortly after the King re-opens parliament, as four parties continue to negotiate the formation of a new coalition government.

General Prem did not stand in the general election eight days ago. Six of the 15 parties elected have officially notified the president of the appointed senate that they support General Prem, who has replied that he would be happy to accept.

The new coalition is expected to consist of four of those six parties. It will be dominated by the moderate Democrats, who won 100 of the 347 seats. They will be joined by the nationalistic Chat Thai Party (63 seats), which was the opposition before the election, the Foreign Minister's Social Action Party (51 seats) and the Rassadorn Party (18 seats), which has close ties with pro-Prem factions in the military.

These four hold 232 seats, almost exactly two-thirds of the new Lower House.

Spain protests at Norway ban

By Fay Gjester in Oslo

SPAIN SEEMS set to spearhead an EEC dispute with Norway about the latter's right to regulate fishing in a "protection zone" around the Svalbard (Spitsbergen) archipelago.

Trawlers belonging to several other Community countries left the area last week, after Norway announced that the "third nations'" catch quota of 18,500 tonnes of cod had been exhausted, and that fishing by these countries must stop (Norway and the Soviet Union *have separate quotas*).

Ten Spanish trawlers working *off the island group*, suspended fishing, but have remained on site.

Spain has sent a note to Oslo challenging the Norwegian ban, which it alleges is "discriminatory," and warning that it plans to appeal to the International Court of Justice at the Hague, against the way in which Norway *regulates* fishing in these waters.

Dublin heeds industry's cry on competitiveness

Hugh Carnegy on *the background* to the devaluation of the punt

"THE NEED to restore competitivenes has never been more urgent," warned the Confederation of Irish Industry (CII) last Wednesday in its comment on latest trends showing *declining order books* and weakening exports throughout the first six months of the year.

It was the latest in a series of increasingly worried state*ments by the* CII that blithe optimism over the effects for Ireland's sickly economy of falling oil prices masked an alarming reality: that the falling *value of sterling and the dollar* was making Irish goods increasingly expensive in its main export markets and that in turn threatened thousands of jobs at *home.*

There must have been a sigh of relief among many of the confederation's members on Saturday afternoon when it was *announced that the* Fine Gael-Labour Government had responded to their "urgent needs" by winning a 8 per cent devaluation of the Irish punt *within the European* Monetary System.

The move neatly illustrates the peculiar currency bind that Ireland has found itself in since it broke its previous link with sterling and joined the EMS in 1979. The problems will be eased by the weekend devaluation, but not solved.

Although Irish Ministers claim the benefits of member*ship in inflation terms* and in forging stronger economic links to continental Europe, the punt remains vulnerable to the movement of sterling because of *Ireland's heavy trading links* with Britain.

This link is declining in relative terms, with exports to Britain accounting for some 38 per cent of Irish exports now, compared to more than 40 per cent in 1981. *However, it is still* strong enough for the punt market to react sharply to sterling.

Earlier this year, as the Irish currency, which stood at 78p *sterling a year ago*, climbed towards the 90p mark, there was a *speculative* rush on the punt which drove prime interest rates over 15 per cent. The betting in the Dublin money markets was that the punt would be *devalued in an expected EMS* realignment, which eventually came in April. Thus companies with bills to settle in sterling—and a good number of individuals who shop in Northern Ireland—bought it while they thought it was cheap.

In the event, the Irish Government, keen to gain the maximum inflation benefits from improving international condi*tions, held the punt steady* against the European Currency Unit as the French devalued by 3 per cent, the West Germans revalued by the same margin and Belgium, Luxembourg and Denmark revalued by 1 per cent.

However, the Government's calculations have been con*founded by the further weaken*ing of sterling. In addition, the Irish currency's position against the falling dollar became a serious factor as 10 per cent of *Irish exports go to the US.* By close of business last Friday, the punt was worth 95p and $1.41.

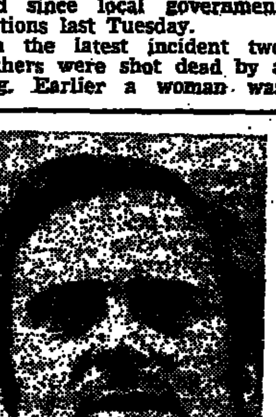
Although interest rates at *home had fallen after the April* EMS realignment to below 10 per cent, the pressure was once again shifting upwards.

Mr John Bruton, the Minister of *Finance*, said yesterday the punt had appreciated against the dollar and sterling to artificial rates that could not be accommodated without loss of jobs. In a country where unemployment is at more than 17 per cent and still rising, that is as good a reason as any for action.

On Friday evening and Saturday morning, a series of telephone calls between Dublin, Brussels and other Community capitals secured the devaluation, the fourth time in six years that a *single-currency change* has occurred in the EMS.

Mr Bruton accepted *that* the move would add to inflation by about 0.5 per cent this year and leave *the* annual rate in 1987 at between 4 and 4.5 per cent—*a considerable disappoint*ment for a Government which at one stage was talking of less than half that. But interest rates should ease.

The Finance Minister stressed during a radio interview yesterday that Ireland remained emphatically committed to the EMS. What he did not voice was the exasperation of many in Ireland that sterling has not joined, made more acute now by the fear that if it does eventually accede, it will be at a weak level which builds in a disadvantage for the punt.



Mr Bruton: committed to EMS

Bonn shows concern at US push on interest rates

Rupert Cornwell on West Germany's anxiety over demands for action

AN OFFICIAL facade of stubborn indifference is failing to mask West German anxiety about the US's increasingly pressing demands on Bonn for speedy action — above all through a cut in interest rates —to boost domestic growth and reduce foreign surpluses.

Demands from Washington that Bonn do more to stimulate its disappointingly sluggish economy are in themselves nothing new. Over the past 12 months they have been invariably repulsed. West Germany countered them with reminders of what happened before — *in 1978 and 1979* — when it assumed the unwelcome role of "locomotive," and arguments that it was up to the US to reduce its own trade and, above all, budget deficit.

These arguments were wheeled forth again at the weekend by Mr Otto Schlecht, State Secretary at the Economics Ministry in Bonn. In the view of both the OECD and the International Monetary Fund, he said West Germany was a "model pupil" of economic management. Bonn had no intention of being bullied into the mistakes of eight years ago, when extra expansionary measures led not to extra growth but merely to a surge in inflation.

His words, however, do nothing to still a conflict now being popularly referred to here as the "dollar war." West Germany *feels* it is being *told* in effect to cut its own interest rates or see the dollar decline further. The latest shot was the remark by Mr George Shultz, the US Secretary *of* State, that the US currency could move lower still.

On Friday, the dollar closed at DM 2.08, its lowest level since early 1982. Exchange dealers now fear it could slide below DM 2.00 — a rate which *Mr* Schlecht admitted would be "painful" for German exporters. Although most leading opinion here tends to support the unswerving line of the authorities, Mr Walter Sieps, chairman of Commerzbank, last week came out in support of a cut in the discount rate from 3.5 per cent, where it has remained since March 7.

West German officials insist that the economy is, after a weak first quarter, on target to grow by 3 to 3.5 per cent in 1986, an assertion supported by a strong increase in industrial production in June, to a level 4 per cent higher than in the same month *of* 1985.

They also maintain that German imports in volume *terms* are now, at 7.5 per cent, growing more than three times as fast as exports, and that this trend will show up in a reduced trade surplus once the initial perverse effects of the mark's recent revaluation have worn off.

Furthermore, they add, any *relaxation of monetary policy* could generate an increase in inflation. But that argument was somewhat dented this weekend by provisional figures *showing that the retail price* index was 0.5 per cent lower in July than 12 months earlier

Nor has Bonn's embarrassment been reduced by the record trade surplus achieved in the first half *of* 1986. At DM 50.3bn, it is on target to exceed DM 100bn for the full year and possibly attain the DM 110bn peak which many outside forecasters, less swayed by the reassurances put about by the Government, expect.

That is another reason why, if the dollar is below the DM 2.00 mark when the central bank's summer recess ends in mid-August, the pressure on the Bundesbank to act may become too strong to resist.

FINANCIAL TIMES

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Australia attacks US wheat sale to Soviet Union

BY OUR COMMODITIES STAFF

THE AUSTRALIAN Wheat Board (AWB) has attacked America's decision to subsidise the sale of up to 4m tonnes of wheat to the Soviet Union at the weekend, saying it was bound to have a further depressing effect on world market prices.

"Clearly the US still believes export subsidies are the way to solve their agricultural problems, something with which the AWB and the other unsubsidised wheat exporters of the world strongly disagree," Mr Clinton Condon, the AWB chairman, said in a statement issued in Melbourne.

His remarks, however, were tinged with relief that the Reagan Administration had decided – for the moment at least – to resist political pressure to extend its subsidised Export Enhancement Programme (EEP) to other countries that are large buyers of Australian wheat, such as China.

The EEP offers bonuses from government grain stocks as an incentive for sales of farm produce. So far, it has been restricted to key markets in Africa and the Middle East, where the US claims it has lost market share to the European Community.

President Ronald Reagan's decision to subsidise the 4m tonnes of wheat, which the Soviet Union has undertaken to buy from the US under its bilateral grain agreement, followed fierce controversy within the Administration and between Washington and other wheat exporters – particularly Australia, Canada and Argentina.

Australia shipped 5.31m tonnes of wheat worth A$953m ($570m) to the Soviet Union and China in the 11 months to the end of May.

Meanwhile in Washington, Mr Robert Dole, the Senate majority leader, made clear that he would continue to press for a further expansion of export subsidies.

Mr Dole, who has been campaigning for an extension of the EEP to boost sagging US farm exports, plans to meet Mr Richard Lyng, Agriculture Secretary, today to urge him to subsidise the sale of maize, soyabeans and feed grains as well as wheat.

World Economic Indicators

TRADE STATISTICS

		June '86	May '86	April '86	June '85
US ($bn)	Exports	19.070	17.431	17.965	18.012
	Imports	33.170	31.638	30.036	31.596
	Balance	−14.100	−14.207	−12.071	−13.584
UK (£bn)	Exports	5.826	5.871	6.038	6.496
	Imports	6.449	6.537	6.303	6.665
	Balance	−0.623	−0.666	−0.265	−0.169
Japan ($bn)	Exports	17.48	17.89	17.76	14.44
	Imports	10.10	10.36	10.93	9.42
	Balance	+7.38	+7.53	+6.83	+5.02
France (FFr bn)	Exports	72.10	68.77	71.44	76.07
	Imports	73.40	70.85	76.26	75.07
	Balance	−1.30	−2.08	−4.82	+1.00
		May '86	April '86	March '86	May '85
W. Germany (DM bn)	Exports	42.65	45.86	44.05	46.01
	Imports	34.33	36.72	35.50	39.26
	Balance	+8.32	+9.14	+8.55	+6.75

S. Korea refuses to revalue currency

By Steven B. Butler in Seoul

THE SOUTH Korean Finance Minister, Mr Chung In-Yong, says the Seoul Government will not "artificially" revalue the Korean won against the US dollar, as the US has now formally requested.

Mr Chung on Saturday also rejected the notion of entering into "negotiations" over the exchange rate with the US, though he said South Korea would be ready to discuss the exchange rate and other bilateral economic issues.

The US Government is seeking an upward revaluation of the won, which has risen only about 1 per cent against the US dollar since the G-five meeting last October that led to a dramatic depreciation of the dollar against the world's major currencies.

US officials are concerned about the continued growth of the US trade deficit with South Korea, which totalled $3.2bn (£2.2bn) in the first half of the year.

South Korean officials have said they expect the won to rise gradually against the dollar as a result of market forces in the coming months. The won is pegged to a basket of currencies dominated by the US dollar.

Tony Hodges on Luanda's efforts to cope with the oil price fall and a guerrilla war

Cash strapped Angola considers reforms

IN THE sprawling market by the old Luanda bullring, women sell a bunch of four bananas for 1,000 kwanzas, a seventh of a manual worker's entire monthly salary.

At the official exchange rate those four bananas cost the equivalent of $33. But such conversions have little meaning because the national currency now trades on the black market for one-30th of its official value, which has been pegged at Kz 30 to the dollar since 1977.

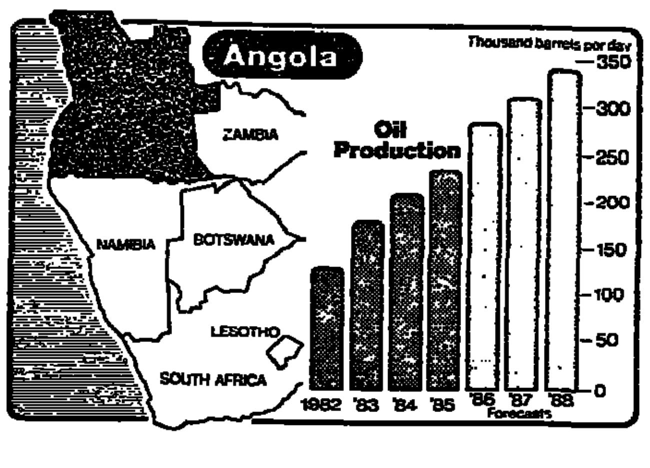
Survival would be impossible for most of Luanda's 1m residents, were it not for the provision of a few basic necessities in "people's shops" at controlled prices. "Goods are so scarce that free market prices have soared into the ether," remarked a long-time Luanda resident, recalling the days when Angola used to export farm products such as bananas.

The economy is partially demonetised, noted a United Nations aid official. "People, even companies, want to barter goods, rather than accept payment in kwanzas."

Business success, or survival, hinges on a technique known as the *esquema* (the "scheme"), by which companies directly exchange their output, the kwanza serving as little more than a unit of account.

Angola is still living with the consequences of the mass departure of its 300,000 Portuguese settlers at independence almost 11 years ago. Portuguese companies, farms and shops were replaced by a cumbersome, over-centralised state sector, while the country remains bereft of skills at every level.

Meanwhile, scarce resources have been channelled into the armed forces, fighting successive South African attacks in the south and the Unita guerrilla war, which has spread over nine-tenths of the country. Agriculture has been ravaged, trade and transport disrupted and last year, $1.15bn, 34 per cent of total government expenditure, was spent on defence and security.



Until the collapse in prices, oil was the Government's saving grace, contributing about 95 per cent of export earnings and over half of government revenue.

Oil output almost doubled between 1982 and 1985, rising from 129,600 b/d to 231,000 b/d, and the country is now the largest oil producer in sub-Saharan Africa apart from Nigeria. But Angola's oil, which last year sold for an average of $26.50 a barrel, was being traded this month for less than $8 a barrel.

Towards the end of last year Angola suddenly began running up arrears on foreign payments, denting its credit rating, hitherto one of the best in black Africa. Most Western export credit agencies, including the UK Export Credit Guarantee Department, responded by lifting cover on medium and long term credits.

Several factors, however, put Angola in a stronger position than some other cash-strapped oil producers and give grounds for optimism that the build-up of arrears is temporary.

First, oil output will continue to rise, partially offsetting the fall in prices. This year production is on course to increase by 21.5 per cent to an average 281,000 b/d, and is expected to reach 310,000 b/d in 1987 and *340,000 b/d in 1988.*

The second positive factor is that Angola did not borrow heavily during the oil boom years. By the end of 1985, its disbursed medium and long-term external public debt totalled $2.5bn, while debt service in 1985 was $324m, only 15.4 per cent of exports of goods and services.

This year's debt service would rise to $540m in the absence of rescheduling, according to the Banco Nacional de Angola (BNA). Assuming an average oil price of $12 a barrel, total exports of goods and services *would not exceed $1.3bn, giving* a debt ratio of about 40 per cent —high but not catastrophic.

The vice-governor of the BNA, Mr Mário Pizarro, says he is confident that the actual ratio can be reduced to between 20 and 25 per cent through rescheduling.

At first sight this might appear difficult. Most Western governments have insisted on a multilateral rescheduling through the Paris and London Clubs, requiring a prior agreement with the International Monetary Fund, of which Angola is not a member.

But Angola does not need to take this route. The Soviet Union, by virtue of its arms sales, accounts alone for two *thirds of the total debt ($2.1bn* out of $3.2bn including undisbursed debt as of September 1985). It has strategic reasons to be soft on Angola and, according to Luanda observers, has agreed to a two-year debt moratorium.

Longer-term deals are being finalised with Brazil, the second largest creditor ($434m as of September 1985) and Portugal ($61m), two countries with close historical and commercial ties to Angola.

The BNA has meanwhile been negotiating new credits to pay off the arrears. Mr Pizarro said an 18-month *facility believed to be worth* about $100m has recently been agreed by a Swiss bank.

According to Mr Pizarro, the bank is negotiating longer term credits in the hope of clearing all of this year's arrears by the beginning of 1987. "If the oil price does not fall again, I am reasonably optimistic," he said, though it will not be an easy exercise."

Restoring Angola's creditworthiness is vital for Sonangol, the state oil producer, which relies mainly on Western credits to fund its share of investment in the oil industry but has recently faced financing difficulties.

A $150m credit line under negotiation with Lloyds Bank International for the offshore oil industry may hinge on the restoration of cover by the ECGD, though the Department of Trade is lobbying hard for exceptional treatment to enable British suppliers to make a belated breakthrough into the Angolan market. Sonangol has written off chances of obtaining further ExImBank guarantees because of the Reagan Administration's decision to back the Unita guerrillas.

To tackle the balance of payments pressures, the Government is also curbing imports. This year's import budget has been revised downwards to *$1.29bn, 7 per cent lower than* actual imports in 1985 and probably just enough to maintain a small trade surplus.

The scope for economies is limited, because military imports, which last year appear to have cost $73m, remain an absolute priority.

Import allocations for most sectors of the economy, except oil and agriculture, have been pared to the bone. Most investment projects outside the oil industry have been shelved.

Already operating well below half of capacity, manufacturing has received an import budget *this year totalling only $69m,* 35 per cent of the 1985 allocation, according to Mr Henrique de Carvalho Santos, the Industry Minister.

War and foreign exchange constraints make economic recovery outside the oil industry seem an almost herculean ambition. But policy reforms, now on the drawing board, may help stimulate economic activity. The focus in agriculture is shifting away from state farms to the peasants, and retailing is to become the domain of private traders.

Monetary and fiscal reforms are also on the way. The Government will no longer automatically cover losses of state companies, many officially controlled prices are to be liberalised, and the kwanza is to be devalued —initially by about 40 per cent, according to Mr Agusto Matos, the Finance Minister.

• Tony Hodges is Africa Editor at the Economist Intelligence Unit.

SHIPPING REPORT

Oil worries fail to curb tanker trade

Financial Times Reporter

THE TANKER trade remains brisk amid uncertainties over deliberations at the Geneva meeting of the Organisation of Petroleum Exporting Countries (Opec) over oil output and voluntary curbs on production.

Galbraith's, the shipping brokers, said that over the past week more business had been quoted and fixed with owners of large ships expecting to see improved rates paid for their vessels.

"There are suggestions," said Galbraith's "that most OPEC members will, after their present meeting, agree a voluntary curb on output quotas. If this should happen there might be a temporary hiccup in chartering demand.

"Apart from that, however, we think that the market will, at the worst, stabilise around present levels, but is more likely, to move upwards as we move closer to the European winter."

According to Galbraith's large ship values have increased, with a major US oil company conceding Worldscale 45 to a 270,000 tonner, Arabian Gulf/Singapore.

Business for 130,000 ton vessels had not been quite so prolific although owners in the Mediterranean believed rates were firming up again.

Considerable activity was reported in the clean section of the market with most strength in rates East of Suez.

Yugoslavs told to cut prices

By Aleksandar Lebl in Belgrade

THE YUGOSLAV Government has ordered price cuts to head off triple-digit inflation and introduced some tax incentives to encourage exports and a wider network of duty-free shops to boost hard-currency earnings.

The main element penalises companies that responded most sharply to the widespread rumours in mid-June that the Government was about to freeze all prices.

Some 200 products that moved *upward in price between June 9* and 25 and by more than 5 per cent in June as a whole – or 53 per cent since the start of the year – are to be rolled back to their June 8 price level.

In the run-up to the Yugoslav Communist Party congress at the end of June, prices of some products increased more than tenfold. The price roll-back is clearly designed to show companies that they may burn their fingers by anticipative price increases.

Overall retail prices rose 6 per cent in June to stand 91 per cent higher than a year earlier, although the rate of monthly increase slowed to 3 per cent last month.

CHIPS TRADE ACCORD

US industry voices doubts over semi-conductor pact with Japan

BY LOUISE KEHOE IN SAN FRANCISCO

THE QUESTION US chip makers are asking themselves is: "Will the US-Japanese semiconductor trade accord really work?" After fighting against alleged Japanese "unfair trade practices" for almost a decade the US has finally won big semiconductor trade concessions from Japan, but the war-weary US industry has yet to be convinced that its Japanese competitors will live up to their government's promises.

The negotiated settlement followed US industry officials allegations that Japan had illegally restricted foreign chip sales in its home market and that Japanese companies used predatory pricing to gain market share in the US. But although the US officials welcome the pact, they stress that it will take hard work and good faith on both sides to turn commitments into reality.

"I'll believe it when I see it," says Mr Wilfred Corrigan, founder and chairman of LSI Logic, and a veteran of the US semiconductor industry.

If the Japanese Government wants the agreement to work, then it will, he and many industry leaders believe. Without strong Japanese Government pressure on Japanese industry, they fear the agreement will prove fragile.

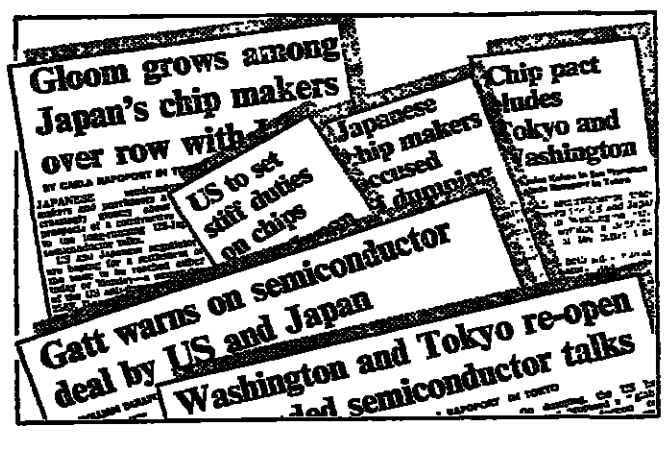
"The Japanese will figure out any way they can to get around the purpose of the agreement," warns Mr Corrigan. The US must be vigilant in monitoring the progress of the agreement, otherwise it will be circumvented, he believes.

Dr William F. Finan, a respected specialist in semiconductor trade issues, predicts that the agreement will not last its five-year term. He calls the accord a "good short term prophylactic" for the problems of the US semiconductor industry.

Behind the cynicism of US industry leaders lies a history of what they claim are "broken promises." Japan has "liberalised" its semiconductor market at least eight times over the past 12 years, but none of these actions has had a significant effect on US chip sales in Japan.

Most recently, in 1983, the US Japan Working Group on high technology industries secured a commitment from Japan's Ministry of International Trade and Industry (Miti) to encourage Japanese companies to increase semiconductor imports and establish a trade monitoring system. Despite this agreement and the 1985 elimination of semiconductor import tariffs in the US and Japan, the US share of the Japanese chip market has remained flat at around 10 per cent.

The trade agreement signed last week is, however, far stronger than any of its predecessors.



Japan has promised to increase its purchases of foreign-made chips to just above 20 per cent of its market over the next five years, more than doubling US sales in Japan.

Japanese export prices on a wide variety of semiconductor products will be monitored by Miti to prevent future dumping. The monitoring system will cover exports to third countries as well as to the US.

The US Department of Commerce will also monitor production costs and prices of Japanese-made memory chips (electronically programmable read only memories and dynamic random access memories) sold in the US. The department will "advise Japanese companies exporting to the US of appropriate fair prices for their products so that they may avoid dumping."

In return, the US has suspended two key dumping suits against Japanese chip makers as well as suspending the broader "301" complaint.

To "encourage" Japanese companies to comply with the terms of the agreement, the US has retained the right to reactivate the dumping suits. "Any time they dump products they run the risk of triggering dumping duties. That is a very real threat," Mr Corrigan points out.

Not everybody in the US industry is pessimistic about Japan's commitment to the trade accord. "I think the agreement is very favourable," says Mr Charles E. Sporck, president of National Semiconductor.

"I believe that the Japaneso companies are sincere in their commitment to expanding their purchases of US products. Until they prove otherwise, I'm a believer."

If Mr Sporck is right, the agreement could lead to a big expansion of US chip sales in Japan. The US Department of Commerce calculates that current annual sales of around $600m (£403.9m) should increase to around $2bn over the period of the agreement.

The US industry must make a commitment to support the Japanese market, says Mr Sporck. "We must increase our allocation of resources to Japan." Already, National Semiconductor has increased its Japanese sales and support staff and expanded its design, test and quality assurance operations in Japan, he says.

Like most US chip makers, National does not, however, have immediate plans for a Japanese production facility.

The immediate impact of the accord is expected to be an increase in chip prices world wide. Although US industry analysts reject Japanese reports of a possible doubling of the price of memory chips, they do expect a price increase of about 20 per cent on Drams and Eproms.

SHARES OF WORLD SEMICONDUCTOR MARKET

	US	Japan	Europe
		%	
1980	61	26	13
1981	55	34	11
1982	54	34	11
1983	53	37	9
1984	51	39	9
1985	48	41	10
1986	43	44	11

Other chip prices could increase slightly, they say. These price increases will, however, be only a "short-term perturbation", analysts maintain. They see the long-term downward price trend continuing after a few months of confusion.

Nobody in the US chip industry expects instant results from the trade agreement. Even the "believers" say it will be months, perhaps even a year, before US sales to Japan increase significantly. It takes that long for electronics firms to evaluate and design new chips into their products, experts point out.

There are also dangers that the agreement could backfire on US chip makers: although the US manages to persuade Japan to monitor export prices to third countries as well as to the US (a key sticking point in the negotiations), it has yet to be seen whether such controls are enforceable.

Big US semi-conductor buyers say it is too early to assess the impact of the trade agreement on their costs.

As the next potential "target" of aggresive Japanese competition, US computer companies have given the semiconductor industry their tacit support. The marginal increase in chip prices that the agreement may cause is a minor inconvenience compared with the potential benefits to the US semiconductor industry of solving the "unfair" Japanese competition issue.

"This agreement could be a turning point for US industry," says Mr Sporck. "If this agreement leads Japan to understand that it cannot persue policies that wipe out the industries of its trading partners, if Japan accepts the fact that trade is a two way deal, then perhaps this agreement is indeed one of the most significant agreements that have ever been negotiated by the US".

Europeans threaten challenge under Gatt

By Tim Dickson in Brussels

THE US-Japan agreement in semiconductor trade has come under fire in Europe. The European Commission is concerned about the deal's impact on European chip prices and manufacturers, and said that it might take action under the General Agreement on Tariffs and Trade.

The agreement covers chips exported to Europe and the Commission has stressed that "it cannot accept that Japan and the US determine prices to be paid by European users on the basis of a bilateral understanding."

While not objecting to those elements of the deal intended to eliminate Japanese dumping in the US, it is "concerned about the possibility of discriminatory market access to Japan."

The European Electronic Component Manufacturers Association (EECA), which is pursuing its own anti-dumping case in Europe, said yesterday that the deal at least "represents a warning shot for the Japanese. The Europeans have been left out, but the Japanese should have got the message."

Mr Iann Barron, chief strategic officer at Inmos, the British microchip company, was less sanguine. He pointed out that "while the agreement contains nothing that should noticeably harm Europe, there is nothing that specifically protects its interests."

The "third country" provision in the monitoring system was intended to protect the US from backdoor imports and was not designed with the Europeans in mind, he said.

"There is nothing more, however, to say that the Americans won't use unfair prices.

Europe imports 35 per cent of its chips but attempts are being made to encourage a stronger indigenous industry for the 1990s, notably through companies such as ESS and the Philips/Siemens mega-chip project.

US chipmakers seek support

US SEMICONDUCTOR industry leaders have called upon the European electronics industry to support the US/Japanese semiconductor trade pact as reports of European objections to the trade agreement reached the US, writes our San Francisco correspondent.

"The European semiconductor makers should follow our lead. They should bring trade actions against the Japanese to prevent dumping," said Mr Wilf Corrigan, chairman of LSI logic, the leading US semi-custom chip manufacturer. "The US/Japanese agreement will be very positive for European chip makers," he said.

Tokyo concerned about setting a trade precedent

BY CARLA RAPOPORT IN TOKYO

THE US-Japan semi-conductor trade pact is a precedent-setter. The agreement makes plain that Japan has been using what the west thinks are unfair business practices in importing and exporting one of the world's most important high-tech products.

Tokyo has now given an undertaking to reform on both counts as part of a comprehensive, five-year pact which covers nearly every sub-compact electronic gizmo the Japanese make and, in principle, buy. For the first time, the issue of increased access to the Japanese market was tied directly into an anti-dumping settlement.

The terms of the agreement, should soon be in the in-trays of executives around the developed world. The Japanese Government has called one of its most dynamic young industries to heel—on paper, at least. But that bit of paper could provide the lever that western companies need to prise their way into the huge Japanese market and compete more effectively with the Japanese at home.

"The semiconductor case will be a leading case in market access (for other industries.) We can see it right now with auto parts and we will have more for sure," sighed an official from Japan's Ministry for International Trade and Industry (Miti) last week.

Miti has reason for concern. The settlement of these talks focuses a strong spotlight on the ministry. Those who aim to benefit from the talks would do well to step back and consider its role in Japan's evolving trade policy. The signing of this chip agreement after a year of bitter wrangling between hyper-sensitive Japanese industry executives and US bureaucrats is a tribute to Miti's strong ties with and respected status among Japanese industrialists. But it is this very status which is now at stake.

SOUTH KOREAN semiconductor manufacturers stand to gain a large windfall as a result of the US-Japanese chips agreement. They could be left as the only major international suppliers of commodity-type chips able to sell below the price floors established in the agreement.

Korean manufacturers, led by Samsung Semiconductor and Telecommunications, South Korea's principal manufacturer of K256 dram chips, have entered the markets for large scale integrated circuits several steps behind the world leaders in Japan and the US. They have seen prices for new products decline rapidly below the cost of production.

With manufacturing costs believed to be about $3.50 a chip in Korea, the Korean companies should be able to sell well below the target prices and still make a large profit, at least during the initial three-month period.

Miti was one of the architects of Japan's industrial miracle in the 1950s and 1960s, helping to shape government policy to suit industries' needs. It has become less powerful in recent years, if only because industry does not need it so much. As a result, many at Miti now believe this pact could prove to be a destructive turning point for the agency. They doubt whether Miti has enough strength to make Japanese companies obey the agreement. They fear a failure to do so will create bigger problems than before, and not only in the semiconductor industry.

A Miti official explains: "We had to do something. If they kept on, they would have destroyed the American industry and European industry and caused terrible protectionist problems.

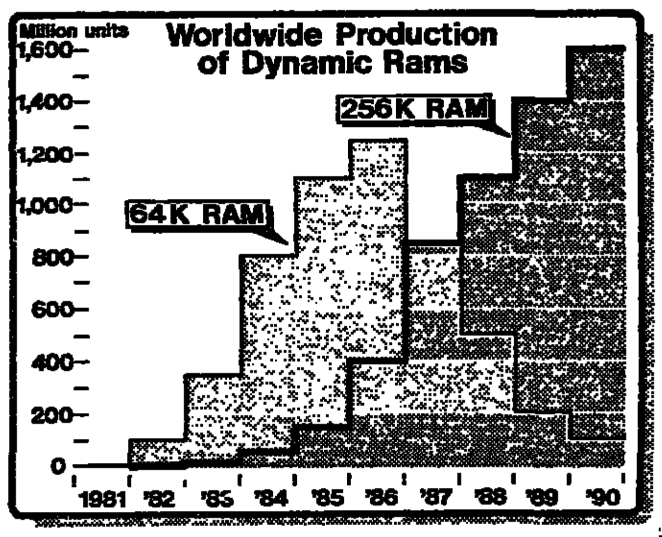
The problem, however, was that Miti officials in the bureau dealing with semiconductor trade were unable to communicate this view to their superiors when the trouble started to boil up last summer.

As it was, it took the Miti semiconductor officials about six months to convince their superiors that Japan had to settle. It then took another six months to convince the Japanese industry to agree. But even so, a Miti man says: "We still don't think we have their agreement."

It is far too early to predict whether Miti can continue to pull the industry its way. Even so, a sombre view at Miti, post-agreement, is understandable. The agency have to take on not only the thankless task of monitoring the costs and prices of exports from Japan, but also those of Japanese companies in 16 countries overseas. Further, Miti realises that price monitoring will be ineffectual if it does not force the industry to cut back on its capital spending plans for enlarging Japan's already huge chip-building capacity. Even more radically, it is understood that Miti may be aiming to force the industry to mothball some of its existing capacit

A relative latecomer to the microchip game, Japan has applied its traditional business practices of seeking high volume, low prices and high market share. The leading Japanese chip makers are essentially electronic multinationals, with product lines that can stretch from nuclear power plants to electric toasters. Intensely competitive in their home market, the industry leaders are just as aggressive overseas.

The five leading chip makers, NEC, Hitachi, Toshiba, Matsushita Electric and Fujitsu, are believed to be making little, if any, money on their volume chip businesses. But the highly diversified nature of these companies, plus their own internal demand for chips, has meant that the recent downturn in the semiconductor market was troublesome but not ruinous.



An analyst with Salomon Brothers explains: "The environment of the chip industry in Japan is intensely competitive. You've got the leading warlords (the big chip makers) against the individual fiefdoms (the smaller makers such as Sharp, Sony and Oki Electric) fighting each other. The Japanese do not want to talk about it but the movement is alway towards strength in volume and diversity. An important objective for Miti now is to regulate the rate of new capacity."

In the meantime, Japanese companies privately complain that the price monitoring agreement will damage them by causing them to lose market share to both US and up-and-coming Korean companies. The short-term benefit of charging higher prices will be eroded by longer-term loss of sales volume. Under the agreement, said a top executive with a medium-sized chip maker last week: "We have to price higher than cost, so the market price is now outside the system. It used to be that we'd lose money in one product and make money on another. Now I'm afraid we lose in all categories."

Still, many believe that the Japanese companies should not fret. According to a prominent legal authority, the pact's third-country monitoring system would not stand up in a court of law. And if it does collapse, Japanese chipmakers will be able to sell chips through off-shore facilities at the price they choose.

Dr Mitsuo Matsushita, Professor of Law at Tokyo University and an authority on trade disputes, says that Japan's Foreign Exchange and Foreign Trade Control Law, it is impossible to enforce such a price monitoring system in foreign countries.

"All they can do is informally advise the purchasers in third countries not to sell to the US, but the purchasers are free to do what they want." He also said that chip consumers in the US might mount an anti-trust suit over the issue. "It would be politically, unpopular, but they might get some monetary damages," he said.

On market access, Dr Matsushita is even more sceptical. "The Japanese Government cannot force them to buy chips. It is legally impossible."

On the pact in general, Professor Matsushita sums up a feeling that is not uncommon: "For a couple of months, it will be a mitigating factor in this trade friction problem. But if you take the two to three year view; I doubt it will do anything but make things worse."

For most in the Japanese industry and government, it is considered an achievement that the pact was signed at all. "It's a beginning to a solution, not a solution itself," concludes a Miti official.

Reagan fails to score conclusive victories in protectionism battle

BY NANCY DUNNE IN WASHINGTON

LAST WEEK was one of deadlines and drama for Reagan Administration trade strategists.

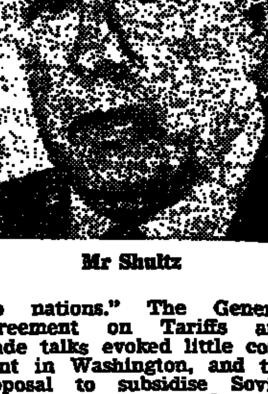
It was the week that the Japanese Government agreed to help the US sell semiconductors in Japan; that preparatory talks for a new round of multinational trade negotiations concluded with the most contentious issues still unresolved; that ended a bruising battle for a new five-year multifibre arrangement (MFA); that the stridently anti-communist administration agreed to sell 4m tonnes of subsidised wheat to the Soviet Union.

The stage is now set for the congressional vote on Wednesday on a proposal to override President Reagan's veto of protectionist textile legislation. At *stake is the future of the MFA*, the Administration's continued conrol of the nation's trade policy and, perhaps, continued Republican control of the Senate.

Although the odds are against the President's veto being overriden the outcome is by no means certain. Last week proponents of the Jenkins Bill, which would cut textile and clothing imports and protect footwear and copper as well, found themselves just 10 votes short of the two-thirds needed to override the veto in the House. They are, however, close to the number needed in the Senate.

The conclusive victories the Administration had hoped to announce last week to blunt the protectionist push had eluded them.

Although the microchip pact was received with some scepticism, it won some considerable praise. The US semiconductor Industry Association hailed the agreement as "an opportunity to begin a new era in trade relations between the electronics industries of our two nations." The General Agreement on Tariffs and Trade talks evoked little comment in Washington, and the proposal to subsidise Soviet grain sales was greeted as "a good beginning" by farm legislators.


Mr Shultz

But the textile agreement was met with howls of protest because the American negotiators had failed to have all fibres included in the agreement and had negotiated no linkage between quota growth and conditions in the importing countries.

Mr John Gregg, chairman of the Fibre, Fabric and Apparel Coalition for trade, labelled the renewal "an atrocity inflicted on the textile and apparel industry.

More than 1,000 union members came to Washington to ask Congress to "veto the veto" and lobbyists concluded that the MFA settlement had boosted the chances of the Jenkins Bill. A major public relations blunder by the Administration helped their cause — the announcement of a new bilateral textile agreement with South Africa allowing a 4 per cent rise in its exports while at the same time a Senate committee was debating sanctions.

The Administration took every opportunity to warn of the dangers. Mr George Shultz, the Secretary of State, warned of the implications of world protectionism — a "compartmentalisation" of the world economy with small groups of countries erecting trade barriers to the outside world.

Mr Clayton Yeutter, the Trade Representative, warned that passage of the Jenkins Bill would wreck the MFA and cost the US "billions and billions" in exports which would have to be paid in compensation to injured exporters.

Mr Colby Chandler, chairman of Eastman Kodak Company and the new head of the President's Exports Council, fretted that protectionism has now become "politically acceptable." Americans see imports as unfair trade while "the world sees our actions on steel, footwear, machine tools and a host of agricultural products and wonders how we can speak so righteously from inside our glass house."

The debt problems of the Third World contributing to the trade crisis are far from solved, he said. Meanwhile, West Germany and Japan "refuse to take steps to increase their domestic growth, which would help us reduce our trade deficit and thus the cry for protectionism at home."

The momentum for protectionism is driven by powerful forces — the record trade deficit and high areas of joblessness in an election year. However, the White House has still to join the fray with its own inimitable brand of horse trading, as the play goes on.

William Dullforce assesses the conclusion last week of the preparatory trade talks

Gatt prospects clouded by unfinished business

TRADE OFFICIALS, exhausted by all-night sessions at the end of last week, reassured themselves that after seven months of haggling they had managed to herd the world's trading nations towards a new round of liberalising negotiations.

They are probably right, but the double climax reached last week in the committee preparing for the next full round of talks on the General Agreement on Tariffs and Trade (Gatt) and in the textiles negotiations leaves the nations shambling in less than orderly fashion to the meeting of trade ministers in Punta del Este, Uruguay, on September 15.

The committee's failure to agree on the draft of a delcaration for the ministers renewed doubts about the ability of governments to unravel the inequities of world trade in farm products and to impose on it the disciplines now applied under the Gatt to industrial products.

The failure exposed yet again the ambiguities of the European Community's agricultural policy, the fragility of current US and EEC efforts to negotiate truces in farm trade disputes and their failure to paper over the underlying conflict on trade in agriculture.

The agreement to extend for five years the Gatt Multi-Fibre Arrangement, which governs most of world trade in textiles and clothing, removed one obstruction to the new trade talks.

But it remains to be seen whether it is enough to enable the Reagan Administration to circumvent in the US Congress on Wednesday what potentially even bigger obstacle. This is the protectionist Jenkins Bill which would substantially increase US restrictions on imports of textiles and clothing.

When the new MFA was concluded in Geneva on Friday US textile industry representatives immediately denounced it as conceding too much to Asian exporters and accused their negotiators of giving in to pressure from China.

If Congress overrides President Ronald Reagan's veto on the Jenkins Bill, reaction among the textile exporting countries will be so strong that hope of launching the new round of multilateral trade talks this year can almost certainly be written off.

All in all, the message from Geneva is that the trade technicians have gone as far as they can. Preparations for the new round must move to a higher level and it is up to politicians and governments to clear the rest of the way.

The message is directed particularly to the British government, which currently holds the presidency of the EEC and must take the lead in resolving the differences within the Community over the line the 12 should take on agricultural trade in Punta del Este.

The Community was responsible for the untidy conclusion to the Gatt committee which had been trying since January to draft a ministerial declaration and agree on an agenda for the new round.

It had been hoped that the preparatory committee would agree on a single draft and maintain th econsensus under which Gatt traditionally moves. In the event, it will submit three drafts, leaving it to the ministers to sort them out.

One was tabled by the group of 10 hardline developing countries in which Brazil and India were the most prominent. They insisted that the new round could cover only trade in goods and would refuse to allow discussion of such issues as trade in services, intellectual property and trade-related investment.

By failing to agree on a single text, the preparatory committee has left the hardliners greater latitude to persevere with this line in Punta del Este. Brazil and India have not been forced into the isolated position where they must decide to join the consensus or take the consequences. The weight of opinion among Gatt's 92 members, however, is not with the hardliners.

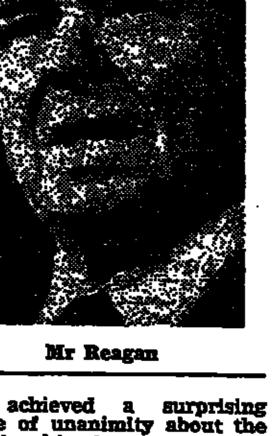
Argentina, one of the 10, submitted its own draft declaration. It emphasised Argentine and other farm exporters' concern to commit countries to negotiating fundamental reform of agricultural trade. It is best regarded as an amendment to the third draft.

This text, sponsored by Colombia and Switzerland, looked likely to win majority support until the EEC's defection. It went through two revisions in a concerted effort by more than 40 Gatt members to marry the aims and priorities of the industrial nations with those of the developing countries.

President Reagan criticised Congress at the weekend for passing what he called "destructionist" legislation setting quotas on textile imports and he urged the House stand, Reuter reports to allow his veto of the bill to

"High trade barriers, what is often called 'protectionism,' undermines economic growth and destroys jobs," Mr Reagan said in his weekly radio address. "But I don't call it protectionism, I call it destructionism," Mr Reagan said, referring to the textile trade bill which was passed by Congress last year and which he vetoed.

The House of Representatives has scheduled a vote next week in an effort to override the President's veto and force the bill into law. The Senate would also have to vote.


Mr Reagan

It achieved a surprising degree of unanimity about the overall objectives and principles of the negotiations and about most items on the agenda.

The group stumbled at the tape over agriculture. The irreconcilable attitudes within the group were most forcibly expressed by Australia and France.

The Australians wanted the negotiators to open a swift, frontal assault on restriction to agricultural trade with an advance commitment to phase out farm export subsidies, within a given timetable.

In less extreme form, the US supported the Australian approach. It wanted agriculture handled quickly in the talks. It aimed to negotiate a prohibition on farm export subsidies such as those which have allowed the EEC to become the world's biggest exporter of dairy products, pork and beef and one of the largest grain exporters.

The French sought the tightest possible control over the agricultural negotiations. It wanted them kept within one negotiating committee, refusing to allow a separate comittee on Gatt subsidies to concern itself with agriculture. It insisted that farm export subsidies should not be mentioned in the declaration

French officals argue that, in contrast to the Australian pie-in-the-sky approach, Paris takes the current realities of world agricultural trade as its starting point. One of those realities, they claim, is that the Community cannot undertake far-reaching external commitments until it has sorted out its internal policies.

When the French last week received the support of the Irish, Spaniards and Greeks—and, more hesitantly, the Danes—the EEC had to withdraw its backing for the Colombian-Swiss draft

The danger now is that the Community's vacillation over agricultural trade will alienate many farm-exporting and developing countries which were prepared to go along with the Colombian-Swiss draft

It raised their hopes that the new round would open markets for their farm products.

The last Tokyo round within Gatt failed to fulfill its promises on agricultural trade. The current dialogue between the US and the EEC over their various agricultural disputes raises the spectre of the two super farm-trading powers concluding a bilateral deal which would carve up the world for farm products at the expense of other countries.

The 12 farm-exporting countries in the Pacific, South America and Asia which have started coordinating their policies towards the new round will meet again in Australia later this month. The burden is clearly on the EEC to sort itself out in the next few weeks.

Councils get tough on Sunday trading

By Our Consumer Affairs Correspondent

LOCAL authorities are taking a new tough line with retailers who break the law on Sunday trading, after the collapse of the Government's plans last April to allow stores to open when they want to.

Reports from around England and Wales show that local authorities are now increasingly taking legal action on complaints received from the public about Sunday trading. Previously, local authorities had been reluctant to act because of the likelihood of the repeal of the 1950 Shops Act to allow Sunday trading.

The National Consumer Councild (NCC), which has been monitoring the reaction of local authorities on Sunday trading, has reports of dozens of prosecutions taking place against Sunday traders.

"Quite a number of local authorities are now clamping down on Sunday opening and in some cases jobs are being threatened," says Mr Maurice Healey, deputy director of the NCC.

There seems little chance of any new government initiative on Sunday trading before the next general election.

IRA murders force Ulster builders to shun army contracts

BY HUGH CARNEGY IN DUBLIN

THE GOVERNMENT is facing serious difficulties in maintaining buildings at army and police posts in Northern Ireland after the resurgence of an IRA murder campaign against companies and individuals working on security forces contracts.

Much of the strain is likely to fall on army engineers, already heavily involved in security-force building and reconstruction, as it becomes increasingly difficult to find companies and workers prepared to work at army and police stations in the face of IRA threats to kill them.

Last week, John Laing Construction withdrew from a building contract at the chief Royal Air Force base in the province – RAF Aldergrove, next to Belfast's main airport – after the IRA on Thursday named three companies as being on its list of targets. Thirty-nine jobs were lost as a result.

The threats to the companies followed the murder of Mr John Kyle, a Protestant quarry owner, in a pub in Greencastle, County Tyrone, on Wednesday. He was the fifth man shot dead by the IRA in the past year in its campaign against those working for the security forces.

Last week also saw the withdrawal of all contractors working on the rebuilding of a Royal Ulster Constabulary (RUC) base in Enniskillen, County Fermanagh, which was hit by an IRA mortar attack last year, with the loss of 40 jobs.

The task facing the Government is compounded by the fact that a spate of attacks by the IRA late last year left a number of outlying RUC posts in need of repair. At the time, at least three companies pulled out of security-force contracts, with the loss of some 300 jobs, because of threats against them, and extra troops were flown in to give added protection to damaged stations.

If work was halted or seriously delayed, it would be a considerable triumph for the IRA. As was promised by the Government at the turn of the year, Mr Nicholas Scott, the Northern Ireland Minister responsible for security, has pledged that all the required work will be carried out.

He said materials might have to be brought in from outside and officials did not deny yesterday that outside workers might also be drafted in, although greater use of army engineers is the most likely option.

Among those denouncing the IRA actions have been trade unionists who fear job losses and possible knock-on effects in other industries.

Schroders creates Big Bang subsidiary

By David Lascelles

SCHRODERS, the UK merchant banking group, today takes a further step in its preparations for the Big Bang, or financial deregulation of the City of London, with the creation of a new subsidiary, Schroder Securities Limited.

Schroders is the only leading UK merchant bank that has decided to build up its securities business internally rather than buy an existing stockbroking firm. The new subsidiary incorporates Helbert Wagg & Co, Anderson Bryce Villiers Limited, the equity broking company Schroders set up 18 months ago as a member of the Stock Exchange, and Schroder Securities International Limited, its dealership in international stocks.

Schroder Securities, which is a Stock Exchange member, has capital of about £10m at the moment and employs about 180 people, including 30 in Tokyo and 30 in Hong Kong. It has about 20 analysts who currently cover Far Eastern stocks and nearly half of the UK stock market. It expects eventually to become a member of the Tokyo Stock Exchange.

The firm is also building up a relationship with Wertheim & Co, the Wall Street investment bank

Nick Garnett examines a heavy industry's battle for survival

Forgings fall in European league

GRIMY and hot, dark and noisy. Steel forges were the very type of dirty, metal-bending operation written off by government ministers back in the early days of recession as a "sunset" industry that could be happily left to wither and die.

The UK's forging sector has certainly been slipping and sliding according to the latest glum economic review by the British Forging Industry Association.

The association's 60 member companies, which account for four fifths of UK output, forged 205,000 tonnes of metal last year, less than half the tonnage they churned out in 1979.

Chronically low profitability and huge overcapacity are rife. "It is a distressed industry," says Mr Ian Ford, the association's vice-president. Moreover, the industry is now only a quarter the size of that in West Germany.

However, far from representing some organic metamorphosis by the UK economy into better, more money-spinning activities, the tribulations of the UK's forging companies reflect two cruel aspects of the state of British manufacturing.

As suppliers of high-quality forged components to a wide range of engineering industries – with vehicle building absorbing half the output – the decline in forging is a barometer of the size and health of "hardware" production in the UK.

It also represents an uncomfortable reminder of the cycle of low volume, low margins and low investment that continue to envelop large, although by no means all, patches of UK engineering.

It is not all bad news. Unlike castings – made by hot metal poured into moulds – forged steel is made from heated metal that is stamped into the required shape by hammers and presses, and some reinvestment programmes are in progress to modernise UK forging operations.

Davy Forge of Hartlepool, in the North east, part of the Davy Corporation, is spending £1.25m on new hammers and presses, furnaces and process equipment. It won a Queen's Award for export achievement this year, the first forging company to do so. John Stokes of Walsall, in the Midlands, heartland of forging, has also been expanding its press capacity.

The forging operations of United Engineering Steels, product of the GKN-British Steel Corporation Phoenix Two merger and by far the biggest supplier of forged metal in the UK, has a better track record of investment than many medium-sized European competitors.

Some companies are doing quite well. George William Thornton in Sheffield, part of the Bramah group, is a small, successful operation in precision forging ranging from aerofoil blades to hip joints. Firth-Derihon, part of Johnson and Firth Brown, has made a success out of relatively high-volume automotive forgings and higher value-added components for the aerospace industry.

More companies are also turning to non-ferrous alloys for components with higher profit margins. Such components, frequently destined for aerospace applications, demand tight tolerances and tough metal-testing procedures during manufacturing. Much of the Davy Forge investment is designed to broaden the company's appeal to customers in aerospace and missile building. Non-ferrous alloys probably account for no more than 2 per cent of forges by volume but 15 per cent by value.

An unmistakable taint of pessimism permeates the forging association's internal review, however.

Output fell almost 8 per cent last year. In the first few months of this year, deliveries dropped a further 12.5 per cent compared with the same period in 1985.

Such unpleasant figures come despite a jump in demand from a number of sectors, including mining, pipeline manufacture and mechanical handling.

Not only Britain is suffering. Profitability is low right across Europe. Output from French forges has fallen to 1963 levels, although if integrated operations are included – those owned by a wider manufacturing business – France is still a larger producer than the UK.

That is largely because of the size of its vehicle industry. Non-integrated forges in France producted only 140,000 tonnes in 1984 – the last available date for comparison – but integrated forges added another 140,000 tonnes. In the UK the forges of vehicle builders add just 25,000 tonnes. Italy also produces about 50 per cent more tonnage than the UK.

From the point of view of British manufacturing, the most unpleasant comparison is with West Germany. That country is producing in total just short of 1m tonnes a year.

Not only is West German manufacturing generally much stronger than in the UK, but independent West German forges moved into specialist niches in the 1960s and 1970s from where they have become important suppliers worldwide of specialist forgings. In 1984 West German exports of forgings rose 38 per cent, and in 1985, total production of steel forgings increased 9 per cent, largely on the back of increased domestic demand.

The association's last annual report contained a salutary warning. "The question now is whether companies can raise their sights above the short-term pressure to survive and build internationally competitive enterprises," it said.

"This requires not only stable government policies and free access to markets in Europe and elsewhere but also a lifting of spirits among businessmen and a long-term vision of what can be achieved in world markets."

Dixons switch from Far East TV sets

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

DIXONS, the electrical retailing group that failed last month to take over Woolworth Holdings, has agreed to buy about 200,000 British-assembled colour television sets from Thorn EMI in a deal worth £50m at retail prices.

The move is part of a marketing offensive by Dixons in the wake of the failed Woolworth bid and represents, according to Dixons, "the largest single order for British televisions ever made in the UK."

The 200,000 television sets represent about a tenth of the present total UK market for colour televisions and will signal a switch in Dixons' sourcing policy, traditionally geared to Far East manufacturers.

Nearly half its total sales of colour televisions will now be sourced in the UK rather than the Far East.

"We were offered a very good deal by Thorn EMI and we felt there were a lot of advantages from sourcing these televisions from the UK," said Mr Gerald Corbett, group finance director, yesterday. "Apart from being closer to our suppliers, it also helps to create jobs and demand in the economy."

Dixons hopes the Thorn EMI deal will prove as successful as the pre-Christmas deal last year with Amstrad for sales of word processors and home computers.

It plans to start selling the televisions in the autumn under a new brand name yet to be announced. The televisions will be available in all Dixon Group outlets – such as Dixons, Currys, and Power City – and will aim to undercut higher-priced Japanese models.

A typical 20-inch colour television costing £220 will be sold by Dixons under the new brand for £199.

Mr Mark Souhami, Dixons group managing director, said yesterday: "We are the only UK retailer who can move this volume of product."

Dixons was unable to disclose last night which Thorn EMI factories would benefit most from the deal.

Call for banks to fund tax-aided student loans

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

COMMERCIAL banks should co-operate with the Government in a scheme to provide the UK with an adequate system of grants and loans for financing students studying for degrees at universities, polytechnics and colleges, the Lloyds Bank Economic Bulletin says today.

The Government would have to give a lead to the scheme by supplying an extra £125m a year to restore students' maintenance grants to their purchasing power of 1979-80, plus a further £175m annually to cover the costs of encouraging students' parents to fund additional expenses by taking out loans from banks.

The increased contributions from taxpayers' money would raise public spending directly on student finance from the present £800m to about £900m a year in terms of current prices, adds the bulletin, written by Mr Christopher Johnson, Lloyds Bank's economic adviser.

He argues that it is foolish as well as disturbing that a country that takes it as self-evident that old-age pensions should be protected against inflation should have let the purchasing power of student grants fall by nearly a fifth since 1962. "Nobody except the students themselves and their parents seems to care much. Nor is the contrast between the treatment of the old and the young – the country's past and its future – even noticed."

He adds: "By skimping on financial provision for higher education, the state is thus forgoing an investment far more profitable to society than many other forms of public expenditure which are protected by their 'sacred cow' status."

The Conservative Government should find the 13.5 per cent increase needed to return the grants given outright to degree students to the buying power they represented when the Tories took office in 1979.

Although how much grant a student received would still depend on means-tested parental income, the 13.5 per cent grants increase would not be accompanied by rises in the contributions expected from parents even in the highest income groups.

But instead of expecting better-off parents to make the payments to their student children from current funds, Mr Johnson argues the Government should provide incentives by way of additional tax relief for parents to finance the contributions by bank loans.

Reshuffle may leave Cabinet little changed

BY PETER RIDDELL, POLITICAL EDITOR

THE ministerial reshuffle early next month is likely to be confined mainly to the middle and lower ranks of the Government.

As most Cabinet ministers left at the weekend for their summer holidays, all the signs are that Mrs Thatcher is inclined to keep any changes at Cabinet level to a minimum.

While the Prime Minister will make no final decisions for a month, the general view of her key advisers is against making any sweeping changes at the top.

In particular, the position of Mr John Biffen, the Leader of the Commons, now looks safe despite the fury two months ago when he was authoritatively described as being "a semi-detached" member of the Government after his advocacy of a "balanced ticket." Since that rebuke from Downing Street, Mr Biffen has been more subdued and is regarded as a member of the team again, as well as being a highly successful conciliator as Leader of the Commons.

However, some moves are likely lower down the Government. Changes are expected in the Department of Trade and Industry and on the health side of the Department of Health and Social Security.

There has been some talk among Mrs Thatcher's advisers, including the Centre for Policy Studies and her own Policy Unit in Downing Street, about splitting health and social security to give more prominence to health, possibly with its own Cabinet ministers.

The guru factor

Riding on an unusual hobby-horse

Michael Dixon reports on Edward de Bono who has inspired many disciples to think along unexpected lines

A COWBOY rode off on Sunday to a town 24 hours away then turned his horse and rode back over the next 24 hours to arrive home on Sunday still. How could that have happened?

The audience of 85 executives at the Management Centre Europe conference in Brussels pondered the question for some minutes, but finally admitted they were stumped. On the platform Dr Edward de Bono, pioneer of lateral thinking, permitted himself a grin.

"Sunday was the name of the horse," he said in his bedside-manner voice.

It was the medical degree he took at Oxford after graduating in psychology that set the Maltese-born de Bono on the road to originating strategies for thinking the previously unthinkable. He moved to research in physiology at Cambridge, which led to the notion of gaining new perspectives on old questions by jumping the mind sideways from the straight and narrow path.

His first book on the topic appeared in 1967 and has been followed by 19 more. They have sold towards 3m copies in 23 languages. Although his work has raised little more than disdainful eyebrows in hallowed academic establishments, it has made him a key figure in the educational advances being pursued in Venezuela, Bulgaria and recently the Soviet Union.

He has worked as a consultant for a host of companies. They include 3M, Exxon, Shell, IBM, Apple, Citibank, Bank of America, General Foods, Procter and Gamble, Unilever, United Technologies and the Swedish pharmaceuticals and biotechnology group Pharmacia which attributes its rapid profit growth partly to the application of de Bono's methods. Along the way, he has also become a television pundit and a star attraction on the international management conference circuit.

His guru status shines forth as he sits like Buddha before his acolytes, continually scribbling under the lens of the overhead projector beside his chair. By the end of each conference session he is surrounded by a small glacier of scrawled-on transparent film.

What he draws on it are childlike pictures of cars with their engines on the roof and aircraft landing upside down. All are improbable, some downright daft. That, he insists, is the whole point. The mind must boggle before it can leap.

"Listening to him sometimes makes you feel you're being taken back to your earliest years at school, which I suppose some people in senior jobs can find disconcerting," says Sandy Angus, a director of Andry Montgomery, looking back on the Brussels conference from a distance of nearly three months.

"It didn't disconcert me, though. It was interesting, entertaining and potentially very useful. As we're an international exhibitions business, fresh ideas are the breath of survival to us. Having the company make good use of de Bono's methods will of course depend on teaching them to the key people who work for me. I'm trying to do that but I'm far less good at it than he is. One seminar with him teaches you more than reading his books."

But more than one seminar with him — according to habitués of management conferences — teaches you no more than you learned at the first. His critics say that since he completed his design for thinking new things almost two decades ago, he has never added anything new.

The 53-year-old doctor's answer is that while the blueprint may be faded, the machine works well. Why tinker with it? He can better spend his time travelling the world using the time-tested methods to generate ideas to the benefit not only of commercial, but also of social concerns.

He is especially proud, for instance, of the notion of harnessing ordinary citizens' eyes to police efforts to counter crimes. Since he originated it in New York over 15 years ago, it has been adopted by numerous countries under titles such as neighbourhood watch.

The way in which he invented it supplies a good illustration of how lateral thinking works. For the notion was sparked by the use of a word he personally coined as a device for side-tracking conventional lines of thought which, however logical, are proving unproductive. The word is "Po." Stated at the beginning of a sentence, it means: Whatever is said next must be considered as a relevant and potentially fruitful suggestion, no matter how nutty it seems.

The use of the word in New York occurred around 1970 when crime was rocketing and the city had no funds to pay extra police. The mayor, then John Lindsay, asked de Bono if he could help, and his reply was: "Po: every cop should have 100 eyes."

Since the rules of lateral thinking forebade Lindsay and his officials to dismiss the proposal as impossible even if desirable, they had to consider it positively. There soon emerged the idea of linking the police to supporting groups of self-interested citizen observers.

De Bono emphasises that the subsequent key work of putting the idea into successful practice, by organising the supporting groups and so on, could not be done without systematic, rational thinking of the conventional kind. "But we are good at mentally processing the ideas we already have, and are getting better now we've computer technology to help us.

"What we are not good at, and where computers aren't yet of much aid, is in having fresh ideas we can then work on. Our weakness is not in processing, but in perceiving new possibilities in the first place. And it's there that my methods can help," he says.

An example of his ways of generating fresh thoughts is to pick a word, preferably a noun, at random from a dictionary and then try to apply it to the problem under review. The random word that came up during the Brussels conference was "false-teeth" and although the context it dropped into at the time was different, it might have generated the neighbourhood watch answer to Mayor Lindsay's New York problem by being used in the following way.

One thing you can do with false-teeth, at a pinch, is to take them out and lend them to other bare-gummed people with a more pressing need to chew. Po: law-abiding people should have false-eyes to lend to police officers.

The purpose of dodges such as random words is to provoke the mind to abandon the familiar angles from which it looks at questions, and see them from previously unimagined points of view. But de Bono insists that if practical good is to come from the wayward visions, they must be conjured up and followed through in the course of a systematic scheme.

"If there's to be benefit from fresh ideas in an area of business or whatever, then it must be one where new thinking can have a significant effect—I call it an idea-sensitive area," he explains.

"What's more, the ideas you come up with must be considered in disciplined ways. There's no more use in sloppy lateral thinking than in sloppy thinking of the standard kind."

Even then, he adds, the formula will not necessarily pay off. Organisations are unlikely to gain from lateral thinking unless powerful people in them, preferably their chiefs, are committed to the method's proper use. It also helps explicity to encourage subordinate managers to apply lateral thinking, perhaps by stating in their job contracts that they are expected to make—say—three productive innovations each year.

De Bono thinks, too, that organisations' ability to switch to the creative mode may be influenced by the nationality of their leadership.

"Americans are a curious mixture. In their actions they seem dynamic and entrepreneurial. But when it comes to having concepts they prefer the well trodden paths. Given the idea of "Lassie" they move on to "Son of Lassie" and so forth. Indians love going round and round. I've not much personal experience of Japanese.

"Among Europeans, Swedes will usually give new ideas a go, West Germans seem creative though only in certain directions such as precision engineering, but the Dutch have evidently lost their way. Italians possibly have the most flair, not only productively but organisationally—they're the first nation to show that you don't need a Government, for instance.

"But the British shy away from what's not been done before. Their famous names in business are mostly people who've kept much the same operations running but cut down the working costs. While that's an important function, it is only one side of an economy. The other side is opening up the new, and Britain neglects it. I can't think of anyone who's doing it except Sir Terence Conran and once in a while Marks and Spencer."

If de Bono is right, British business chiefs' concentration on making old operations more efficient is depriving them of enjoyment.

For the Management Centre Europe conference showed that lateral thinking is great fun. Although the mixed-nation audience began somewhat stiffly, they were soon pitching in with glee.

For example, when they were asked for ideas on developing banks' cash-dispenser machines, a French executive said: "Drawing out my money makes me sad, so why not cash-dispensers which make people laugh?" That sparked a burst of ingenious suggestions for fixing the machines to tell jokes.

But the seemingly feasible proposal to which the group swiftly gave consensus approval promised to be even more entertaining, at least for some. It was to make the cash-point machines take deposits as well as pay out, and build in a gambling element. Every now and again, some small depositor would hit the jackpot and be credited with £1m or so.

Previous articles in this series appeared on June 30, July 2, 7, 14, 21 and 28. The remaining articles will appear on alternate Mondays, starting on August 18.

Kenya computes a speedy budget

By MARY ANNE FITZGERALD

THREE YEARS ago John Akach was a filing clerk in Kenya's Ministry of Finance. Three months ago he was busy collating the 26,000 items that comprised the 1986-87 budget presented in June. Akach's rapid career advancement was triggered by the arrival of five Osborne microcomputers in 1983.

The decision to computerise, initially regarded with misgivings by mid- and top-level bureaucrats, has set an example that augurs a change in pace throughout Kenya's ministries. Previously, statistics were compiled manually with the aid of a single mainframe computer.

The computers, funded by the US Agency for International Development, were introduced at the instigation of advisers seconded from the Harvard Institute for International Development. The following year 10 more computers were donated by the California-based Kaypro Corporation.

For Africa, where many countries are unable to furnish economic statistics that are less than two, sometimes three, years old, such computerisation is revolutionary. Yet desite obvious advantages, the move initially met with resistance from both civil servants and politicians. Computerisation is a politically sensitive issue in Kenya where, with a 12 per cent unemployment vote, labour-intensive industry is actively encouraged.

The public relations breakthrough came last year when, for the first time, the budget was computerised. The exercise effectively demonstrated that computerisation, rather than costing jobs, expanded government employees' productivity instead.

Printouts of the budget were printed and bound in a fortnight, a startling achievement measured against the yardstick of previous experience. It was not unusual for previous budgets to have taken so long to prepare and typeset by hand that they were ready only just in time to be presented to parliament.

Another key project implemented by the Finance Ministry last year was an ambitious review of individual ministerial spending with the object of pruning capital outlay on development. The task entailed the analysis of 14,000 budget items, aggregating them in five expenditure categories across 51 different budgetary reports in each of four budget years.

It was completed by Akach and a secretary in three days. Such an exercise attempted with calculators and typewriters would have required months to complete.

At the outset, staffing presented a problem. The ministry was unable to attract computer managers on the salary being offered. Managerial skills are scarce in Kenya, and private sector firms pay two to three times more for equivalent posts.

There was also an image problem. Bureaucrats at deputy under-secretary level and higher were reluctant to learn about computers because working with keyboards is regarded as a menial job.

Undaunted, the ministry turned to typists and clerks such as Akach. A-level graduates were employed to train them on the computers and to write programs.

"Our secretaries are much more productive than anyone in the private sector we used to farm out to. And now their bosses are peering over their shoulders and taking an interest in what they are doing," says Dr Clay Wescott, the Harvard adviser responsible for implementing the program.

Within a few weeks ministry personnel were producing five-year district development plans, weekly exchequer returns and budget out-turn and project monitoring reports.

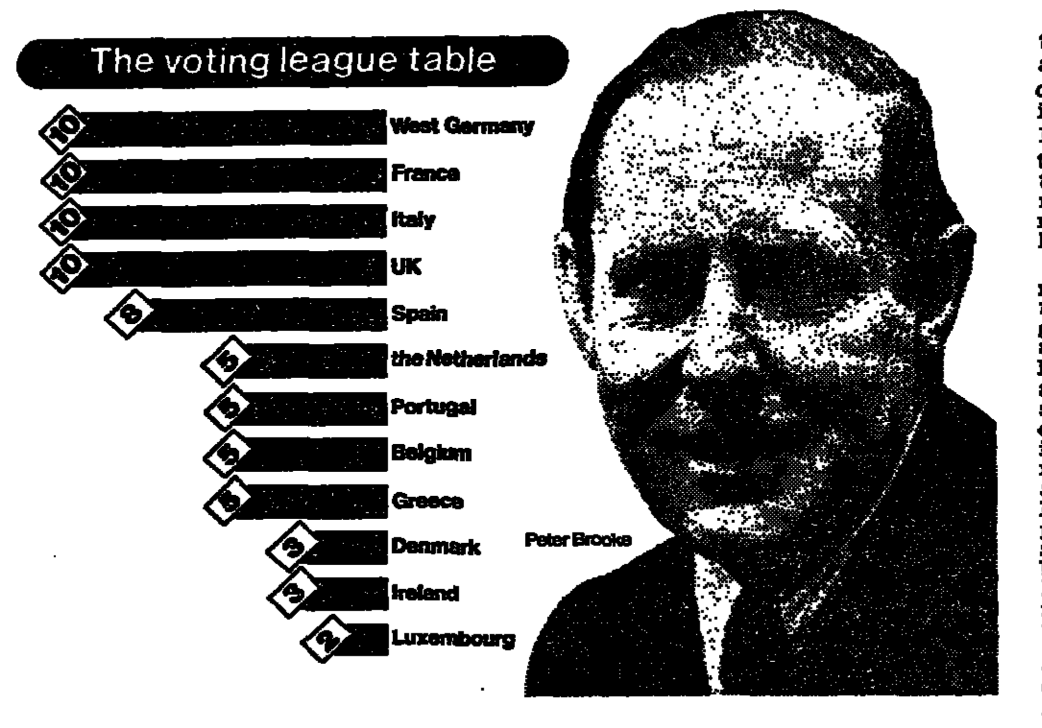
During the 1984 drought, programmers developed models on microcomputers to estimate imported food requirements for each district, schedules for unloading ships and transporting food to depots, and the financial implications of domestic grain shortfalls.

Other ministries, including the Office of the President and Planning and National Development, have begun to use computers to analyse budgets and monitor some 600 development projects. There are over 70 microcomputers in use in the finance planning ministries, including 16 district offices.

EEC spending

Tomato ketchup in the budget works

By Tim Dickson in Brussels



"THE TOMATO pact just got stronger and stronger" was how one EEC official put it, somewhat tongue in cheek after the meeting.

That "pact" — broadly speaking the poorer, Mediterranean countries such as Italy, Greece, Spain, Portugal and Ireland (the last admittedly neither Mediterranean nor a noted producer of the red fruit)—has been widely blamed (and credited) in Brussels for the inconclusive outcome of last month's Council of EEC Budget Ministers.

After two full days of negotiations (one stretching well into the early hours of the morning) member states were unable to agree preliminary spending plans for 1987 and with a collective sigh of relief decided to abandon their struggle until early September.

North/south divisions within the EEC and stalemated budget meetings in July, of course, are hardly new to seasoned Brussels negotiators. But the addition this year of Spain and Portugal to the ranks of those member states which generally attach a higher priority to EEC regional and social spending than to agriculture—the so-called "tomato pact"—has further complicated the already tortuous Community decision-making process.

This is perhaps particularly significant at a time when efforts are being made to streamline the administration of an enlarged EEC, notably through the machinery of the Single European Act. Aimed at establishing a new structure for European co-operation, the "Single Act" contains provisions for more majority voting notably during deliberations on unifying the internal market. The legislation still has to win the approval of most national parliaments.

Last month's Budget Council illustrated graphically that there are now two roughly equal camps within the Community of 12—each with a substantial "blocking minority" and thus able to thwart the "qualified majority" required before a first Budget reading can be agreed.

(This is not incidentally a simple matter of securing seven votes out of 12. Each member state has a block of votes weighted according to its size and influence—54 votes are required for a "qualified majority," or putting it the other way 23 must be amassed by at least four member states for a blocking minority.)

The elusive task of finding a compromise capable of meeting majority approval falls to the President of the Budget Council, who for the second six months of 1986 is Mr Peter Brooke, Britain's Minister of State at the Treasury. A patient and courteous man with (so it is said) an impressive grasp of financial detail even at 3 o'clock in the morning, Mr Brooke won high marks for his performance in Strasbourg earlier this month when he skilfully negotiated the final stages of the 1986 budget (itself suddenly thrown back into the melting pot by the European Court's historic decision to declare an earlier version illegal).

This time, however, the challenge of reconciling the various interests proved too much for him. In one corner (but occupying different parts of it) were the budget disciplinarians—notably Britain, the Netherlands, France and West Germany, the last two at the same time strongly wedded to getting the best possible deal for their farmers.

In the other corner were the Mediterranean countries determined not to permit so called non-compulsory spending such as the social and regional funds, research and new programmes to be screwed down to accommodate the spiralling demands of the agricultural sector. (Within this camp there are subtle differences between the newcomers Spain and Portugal and the rest, while the Irish are considerably keener than their southern "neighbours" on the bounteous wealth of the Common Agricultural Policy.)

The hapless Mr Brooke was unable to find sufficient support to clip a further Ecus 200m or so from the near Ecus 700m knocked off the Commission's original proposals earlier in the proceedings by EEC ambassadors. This is necessary if ministers are to stick to "budget discipline"—Community code language for complicated undertakings made in the past to keep spending within certain limits and adherence to which is important if (as the disciplinarians see it) the European Parliament is not at a later stage to add an unjustifiably large number of spending programmes dear to its own collective heart.

The main targets in the search for a compromise were apparently Portugal (a tomato which turned green and ultimately voted with the budget hawks) Spain and Greece, which did not. Greece was determined not to let go of spending on the so-called Integrated Mediterranean Programmes (IMPs) while Portugal was strongly wedded to a tranche of agricultural structural payments. But as one close Council observer of the negotiations remarked ruefully: "In the old days it was fairly easy to isolate one country and that was all you needed to get a majority. Now, there is a number of overlapping blocking minorities. Indeed, in trying to buy off Portugal, they went too far at one stage and alienated the French and Germans over an important detail."

Another official pointed out that Spain and Portugal acquired considerable negotiating skill during their brief baptism in the renewed 1986 negotiations and that as they become more integrated into the Community their bargaining position is bound to get tougher.

With relatively small sums to argue about—apparently just a few hundred million Ecus out of total proposed spending in the region of Ecus 36bn to Ecus 37bn—it is easy to assume that ministers will return from their summer holidays in a mood of goodwill and compromise. Nobody in Brussels, however, is banking on it.

Most significantly, with Community food "mountains" notably butter and beef) growing at an alarming rate and the US dollar showing little sign of strengthening against the Ecu, agricultural spending threatens to upset all other calculations and further increase its claim on available resources. The Commission has already admitted that the Ecus 22.95bn which it has pencilled in for 1987 farm spending will probably have to be revised upwards by around Ecus 700m and if the dollar fails to perk up—world agricultural prices are denominated in the US currency, which thus determines the level of EEC export subsidies—an even bigger correction will be necessary.

This, in turn, will reduce the amount available for social and regional spending, a problem that might have been solved in the past by simply increasing the size of the overall budget. This time, however, even before the revised agricultural estimates, ministers are perilously close to the legal limit of resources implied by the 1.4 per cent VAT ceiling (a theoretical formula for national contributions based on that percentage in each member state of a common basket of goods and services).

"Even at this early stage in the game we are talking about dividing up the cake, rather than simply increasing its size," one British official noted.

On top of all this, the "disciplinarian" camp will be anxious after last year's constitutional row with the Parliament to limit as far as they can MPs' room for manoeuvre.

Under the Treaty of Rome the draft budget has to be adopted by the Council (in time for the first reading in Parliament) before October 5—a deadline which ministers in the past have cut pretty fine, even to the extent of hammering out the final compromise at 11 pm on October 4. It could be one of those years.

Making sure the price is right

COUNT DOWN — DAYS TO BIG BANG — 84

By Barry Riley

"In effecting a transaction with or for a customer a firm shall take all reasonable steps to ensure that . . . the transaction is effected on the best terms available, at the time the transaction is effected, to persons generally for transactions of the same size and nature as the transaction in question."

THIS IS the Securities and Investments Board's "best execution" rule, which along with accompanying principles such as "know your customer" lies at the heart of the new framework of investor protection.

In terms of Stock Exchange business, the requirement for brokers to deal to their clients' best advantage has long been incorporated in Stock Exchange rules, and indeed in agency law. But the principle has been comparatively easy to interpret in conditions of single capacity — with brokers and market makers strictly separated, and commissions fixed.

After Big Bang it will be much trickier. And the problems will be felt by fund managers as well as by brokers and dealers.

The easy aspect is that of small bargains in top grade equities. The Stock Exchange will divide the top few hundred stocks into alpha and beta securities, and firm prices will be displayed by market makers over the SEAQ screen-based trading system in units of 1,000 shares (and in larger size, on a voluntary basis).

Best execution in small transactions in such stocks will therefore be a fairly mechanical matter of achieving the best price on the screen, and indeed this kind of bargain is likely to be channelled through the Stock Exchange's computerised auto-execution system when it is up and running after Big Bang.

A broker can, therefore, pass such an order to his market maker with an easy conscience so long as the latter will match the best screen quote even if it is not his own. This is what often happens in the US.

Where the problems begin, however, is in large size transactions, beyond the scope of the screen quotes and they get worse with gamma stocks, where any screen quotes will not only be meagre in number but will be merely indicative and will not represent a commitment to deal at that price.

Particularly acute difficulties are foreseen in the "Third Market" area, where sponsoring firms may on occasion have large positions in house stocks. How can they exercise a duty of "best execution" in such circumstances? They could be required to bring in outsiders to certify that the stocks was being priced fairly.

More generally in the gamma stocks sector, it could be risky for salesmen or agency brokers to deal extensively through their in-house market makers because it will not be possible to prove that the best price has been obtained.

If they have hunted around for the best deal in a difficult market it might be prudent for them to keep records of what they have done — although that might be a counsel of perfection for busy brokers.

There is also the more subtle question of how they should handle different kinds of orders—at "best," for instance, or limit orders.

Experienced brokers get to know the requirements of different clients, and learn whether their clients expect the order to be executed there and then, or whether the broker is encouraged to try to secure a "feel" for the market, perhaps waiting for a better buying or selling opportunity.

Fund managers have emerged in a vulnerable position

But in future it might be necessary to impose much more rigid procedures. Certainly the client will have considerably more information at his disposal to check market prices through the day. The broker who puts an order aside until after a long lunch will be much more exposed.

In general, however, it is unlikely that in practice brokers would be disciplined for particular single instances of failure to achieve best execution. The real concern would be over a persistent slight bias, in firms that failed to check out the market properly. Records of market quotations would exist to allow the firm's performance to be tested over a period of time.

One likely effect is that firms will keep close track of the amount of their trading in-house. If a market norm is established, which could be near 100 per cent in small bargains but much less in big institutional transactions, a firm which stays reasonably close to the standard figure will feel safe against accusations.

The same could apply to fund managers within the big new integrated securities groups, who will face demands from their traders to see much of the business but may worry that their investment clients will complain that best execution is at risk. Should 60 per cent of business go through the in-house trading desk? Or perhaps 30 per cent? The fund managers would like to know.

A little surprisingly, fund managers have emerged in a vulnerable position because of the best execution rule. Until now, fixed commissions and single capacity in the London market have sheltered them, as they have sheltered brokers, from conflicts of interest over dealing. In any case, until now fund managers have been more or less unregulated.

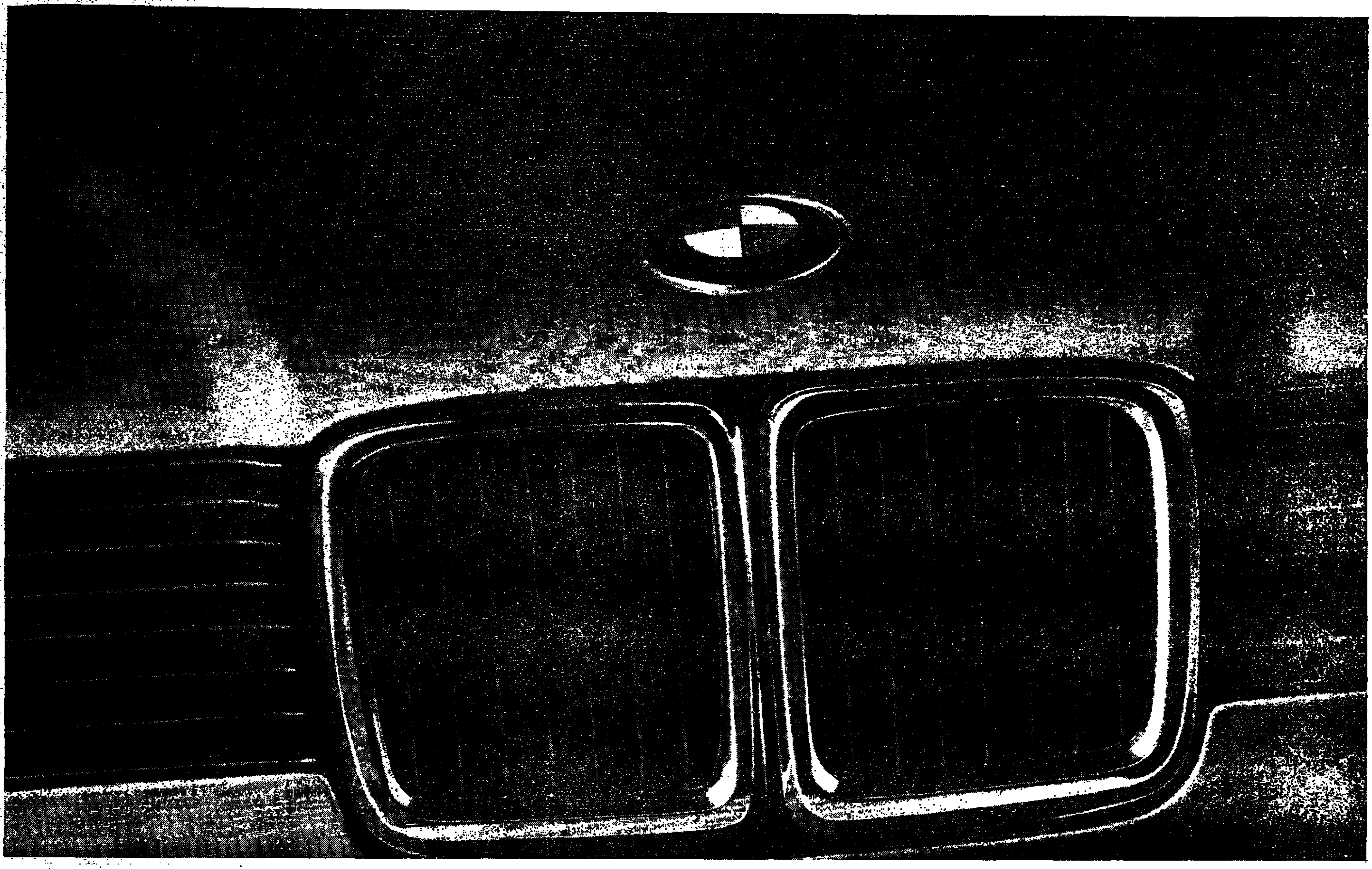
Thus, fund managers will have a clear duty of best execution to their investment clients. One result, for example, is that they could be criticised for clumsy sales of large blocks of shares. They might be expected to break up the stock and sell the stock out carefully through several broking firms so as not to upset the market.

It is being argued in some quarters that agency broking—that is, dealing in securities as an agent for a commission—will continue to be important after Big Bang precisely because fund managers will want to offload the responsibility for achieving best execution.

The alternative will be to deal directly with market makers, without commission. This should be cheaper, but the fund manager will bear more responsibility.

Of course, it is possible that clients could complain that any transactions that involved them paying a commission that was not strictly necessary could not amount to best execution.

So although best execution might seem to be a simple principle, its application requires careful compromises. SIB's practice note puts it like this: *"A firm which surveys a representative sample of available sources will have made a sufficient effort to survey the market generally so long as the firm regularly reviews the sources it surveys."* So now we know.



For indisputable evidence of success, look at the balance sheet.

1985 – a good year in every respect.

Automobile production went up by 3%.

Motorcycle production increased by 9%.

Turnover rose by about 10% as well.

Pretax profits and the resulting taxes were once again higher than the year before.

The accounts for the 1985 business year represent renewed and impressive evidence of BMW's performance.

This success is based on far-sighted Company policies.

To maintain this progress, and to enable BMW to enjoy continuing prosperity, forward-looking investment decisions must be taken without delay.

There is no other way to cope with the accelerating pace of technological progress.

Investment in fixed assets accordingly rose by 60% in 1985.

Investing in tangible assets alone, however, is not enough: knowledge and skills are just as vital if the company's technological lead is to be maintained.

New recruitment, therefore, accounted for an increase of almost 4% in the workforce, including training positions for the young.

Thanks to these measures, and the continuity in company policy, we are extremeley well-equipped to face the future.

BMW is therefore in a position to introduce the new products, and design developments, year after year which provide an essential stimulus to the automotive scene, and in this way to consolidate and increase its share of the world market.

BMW performance data – 1985			
Production-automobiles	Units	445.233	+ 3,1%
-motorcycles	Units	37.104	+ 9,1%
Group turnover (worldwide)	Million DM	18.078	+ 9,7%
Workforce (worldwide)		53.925	+ 3,8%
Investments (worldwide)	*Million DM*	1.376	+59,9%
Profits (before tax)	Million DM	1.029	+ 0,8%

Summary of annual accounts (BMW AG)	1985	1984		1985	1984
	Million DM	*Million DM*		*Million DM*	*Million DM*
Balance-sheet total	6.573	5.907	Turnover	14.246	12.932
Fixed and financial assets	2.592	2.411	Cost of materials	7.891	6.915
Liquid assets	1.793	1.436	Cost of labor	2.918	2.793
Stocks and receivables	2.188	2.060	Other expenditure and income	2.483	2.166
Capital resources	1.920	1.770	Taxes	729	695
Provisions	2.942	2.515	Allocation to reserves	150	175
Liabilities	*1.711*	*1.622*	*Dividends*	*150*	*150*

The full annual accounts of Bayerische Motoren Werke AG and the BMW Group up to December 31, 1985 in accordance with § 329 of the German Companies Act (AktG) have been given an unqualified auditor's certificate and will be published in the Federal German Gazette.
Payment of the dividend of 12.50 DM per 50 DM share, as decided upon by the Stockholders' General Meeting on July 3, 1986 can be claimed immediately from the payment offices stated in the complete dividend announcement published in the Federal German Gazette No. 119 dated July 4, 1986, on submission *of profit entitlement certificate No. 36 and subject to deduction of 25% capital earnings tax.*
Munich, July 1986 — Bayerische Motoren Werke Aktiengesellschaft, Munich — The Board of Management

BMW AG

THE ARTS

Architecture/Colin Amery

A moving, controversial decision

We live in stirring times. The appointment of a youthful and highly original candidate, in the form of Mr Neil MacGregor, to the post of Director of the National Gallery bodes well for the development of that institution. It is a particularly interesting appointment because Mr MacGregor, as editor of the Burlington Magazine has absolutely *no gallery experience.* He has been appointed because of the quality of his mind and imagination and his vision for the future of the collection.

The important thing is that he represents a break from the institutionalisation of the arts. Although he will work as a civil servant—he comes with an unfettered *mind* to a post which, I hope, he will develop into the visual conscience of the nation.

Like many of the nation's *museums and galleries* the National Gallery has a role beyond the mere acquisition of pictures and RT facts. There is a need for more active research policies and the lively promotion of scholarship. There is also a need in all public galleries for them to be the outward and visible signs of an inward, spiritual artistic grace. This is extremely hard to achieve but must be the aim of any director of any institution devoted to the visual arts.

After a long period of gross sterility the architectural profession has slowly realised the need for their creations to be actively beautiful. It has been the pressure of the public which has opened its eyes, that has forced the profession to respond. It has been a more difficult battle to ensure that architects respond to the riches of history, understand context and create new buildings that are original without being alien. The creative understanding of history can do more for the architectural profession than any technological advance.

This is not an argument for the division of architecture into modern and pastiche, but a call for the return to the creative development of an art that will wither if it destroys its roots.

The President of the Royal Institute of British Architects, Mr Larry Rolland has just produced a document known as a "half-term report." In this he considers the future of the Institute itself—not as a trade union for the profession—but as a new base for the national development of the understanding of architecture.

RIBA's proposals for the transformation of the Institute's headquarters are redolent of the 1960s when the creation of "lively centres" was a panacea for professional inadequacy. It would be better to put the curator and his best drawings on television from time to time.

Mr Rolland proposes the transformation of the Institute's headquarter's building in London's West End into a "welcoming and lively public centre for architecture." To do this the RIBA has prepared a "many faceted and exciting plan in the spirit of our time."

There seem to be two *key* elements to this scheme—the return of the brilliant Drawings Collection, currently beautifully housed some five minutes from the Institute, *to the morgue*-like headquarters, and the development of the catering facilities.

These are old ideas redolent *of the insensitive 1960s when* centralisation and the turning of orthodox institutions into so-called lively "centres" was seen as the panacea for professional inadequacy. The public is not likely to be fooled by this sort *of cosmetic action any more.*

It is worth looking closely at the president's statement, because it is a demonstration of the profession's lack of sympathy for the study of history. The decision to move the finest collection of architectural drawings in the world into inferior and inadequate accommodation at the institute's HQ may, as the president says, "increase the scope for attracting adequate funding for the British Architectural Library as a whole"—but at what a terrible cost.

Instead of occupying its present fine premises in Portman Square the collection will be squeezed into six floors of office accommodation with one large display room and possibly a new exhibition gallery. This ill-thought-out scheme has already been described by one critic as "rather like housing families in high-rise flats" and has only achieved the support of half of the institute's own library committee.

The lack of supprot for the half-baked and costly plan to uproot and bureaucratise the Drawings Collection does not seem to worry the president and his council. It is shocking that the president sees fit to say that it is the absence of *the Collection that* "has impoverished the sessional programme at headquarters without commensurate gain to the Institute as a whole."

Any dreariness in the centralised activities of the RIBA is the *fault of the unimaginative* bureaucracy. To return the Drawings Collection to this intellectually impoverished environment would be a major error. No amount of alterations to the fabric of this listed building can remove the air of institutional oppressiveness.

It would be far better for the RIBA to start a fund for the regular and effective touring of their collection. To develop a policy of collaboration with all other museums and galleries so that architectural drawings because as well known and understood as any print or watercolour.

The local sources of architectural history are the sparking plugs of architectural interest and excitement among the general public. Any Open University student or television viewer would welcome the small exhibition of the raw material of architectural knowledge, and more co-operation with amenity societies at a scholarly level would only enhance the whole profession.

After their summer holidays the President of the RIBA and his members should seriously consider a more imaginative and less destructive approach to *the whole question of drawings* and architectural source material. I am certain that no donor would want to promote the concentration of *professional* navel-gazing that the centralisation of all the RIBA's resources in London apparently encouraged in the president's report.

It would be wiser to look again at the whole question of the communication of architectural knowledge. It would be better to put the curator and his best drawings on television from time to time and to fund more staff to interpret the collection than to concentrate resources at the bureaucratic centre.

Buxton Festival/Rodney Milnes

The Buxton Festival, on the cusp of its tenth year, is approaching a crossroads as yet unfurnished with signposts. Over the years it has built up enormous reserves of good will, and indeed respect for its sober, hard-pressed artistic direction. Its achievements are recognised, grudgingly here but with proper enthusiasm in the European musical press. It is a perfect festival town: if the weather is kind, which it was this weekend, there are few nicer places in Europe to be. It presents an inviting three-week programme of drama, music, opera and fringe, and this in a comparatively deprived area. Yet it still fails to attract a direct grant from the Arts Council.

Three pages of the programme are devoted to acknowledging commercial sponsors and private covenanters: the festival survives. But the capriciousness *of sponsors* was famously demonstrated last year when a sudden withdrawal meant that the opera programme had to be scrapped and re-planned at eight weeks' notice. This year was slightly different. Fund-raising obviously has to continue up to the last moment: they had their programme, but couldn't tell until late on how efficiently they would be able to execute it. In the event they just about scraped through, but a proper guarantee of public funds would have made all the difference, the difference between well-meaning effort and solid achievement. One is starting to wonder how long Buxton can survive on good will alone.

Both of this year's operas suffered from late-stage penny-pinching. *Ariodante* is one of the few Handel operas demanding both a chorus and a ballet; in the event, neither could be afforded. The compromise of playing the dance music in the intervals for the audience to chatter through was not a happy one. The Purcell/Dryden *King Arthur*, a piece requiring the services of a theatre, a dance and an opera company that only a well-heeled festival could possibly mount, was also hamstrung: there were only three actors, no dancers (a well-meaning "movement group" was frankly no substitute) and a dangerously over-stretched group of soloists doubling as chorus. The essential spectacle was inevitably starved.

James Bowman and Meryl Drower in "Ariodante"

With an eye—one must *presume—on overtime,* the Dryden play was savagely cut, so that the work emerged as an ill-organised opera with too much dialogue rather than as a *play with musical interludes* fulfilling a well defined function. All this meant that Alan Bates, a Derbyshire man making his first visit to the festival, had far too little to do in the title part other than stand looking vaguely cross while the rest of the cast milled around him. When he did get the opportunity to wrap himself round Dryden's slyly witty text, he showed that his eyebrows are at least as eloquent as Dirk Bogarde's, if not Denis Healey's. Very slightly more is needed.

Indeed, it was one of the singers, Philip Mills, who did best by Dryden, flinging the villainous Osmond's lines out with fearful abandon. Lucy Gutteridge mixed pathos and comedy adroitly as poor blind Emmeline, and among the singers Eileen Hulse (Cupid), Dinah Harris (Nymph, and executrix of "Fairest Isle") and Steven Page (Cold Genius) stood out. Barry Banks (Grimbald), for economy's sake singing one or two numbers he shouldn't have, deserves some sort of medal for hard work.

The action, seen darkly through a thickly painted gauze, was capably enough organised by Malcolm Fraser within the limits of the budget; I especially enjoyed the first glimpse of our sceptred isle as a sea-girt grove populated by tiny satyrs (children come comparatively cheap), Fay Conway's brightly coloured costumes brought distinct pleasure at a time when so much opera is seen in black and white. Anthony Hose was the sound conductor.

Black and white struck back with a vengence (costumes some way after Beardsley) in Ian Judge's production of the Handel, over which it would be kindest to draw a gauze even thicker than the one that shrouded *King Arthur.* Suffice it to say that a production of *Ariodante* in which the hero has to sing "Scherza infida", that exquisite lament with bassoon obbligato, while Polinesso and Dalinda execute slow-motion "simulated intercourse" on a circular bed centre-stage has gone very, very seriously wrong indeed. Ariodante and *Ginevra* were established merely as operetta characters in the first act (she in a bubble bath at curtain-rise): one couldn't give a damn what happened to either of them.

From amid the wreckage one or two singers emerged with dignity intact: James Bowman (hugely authoritative as Polinesso), Meryl Drower (irrepressibly stylish as Dalinda), and Christopher Gillett (Lurcanio); the duet for the latter pair was one of too few moments to remind one just how sensitive and perceptive Mr Judge can be on the right night. Rosa Mannion (Ginevra) continued to show enormous promise, and Eirian James, considering what she had to do (*carrying on like a goal-scoring footballer after "Dopo notte"* was not, perhaps, a good idea), had a most creditable stab at the title-role. Given the antics *on stage, it was understandable* that Mr Hose failed to find the heroic strength of the score with consistency. Da capos fell like corn before the harvester.

In brief, one of the grossest indignities suffered by Handel in recent years—and boy oh boy, has there been competition.

Among the drama offerings was Cheek by Jowl's exhilarating staging of *Twelfth Night* on which our drama critics will doubtless report when it reaches *London early next year.* In the circumstances, this gave rise to further dark thoughts about the widening gap in standards between theatre and opera *direction. A festival of Buxton's* catholicity can only serve to reinforce them.

A forum for young composers

The Lerchenborg Music Week has been running annually for almost a decade, the brainchild of Louise Lerche-Lerchenborg who has brought together performers and composers in her ancestral home at Lerchenborg, some 100 km west of Copenhagen, for a weekend of performance and discussion. Last year, the festival had an Anglo-Danish flavour, with the *Arditti Quartet in residence* to play a host of pieces by British and Danish composers. This year the theme was reversed: the performers were Danish and the *visiting composers British,* in the persons of Simon Bainbridge and Harrison Birtwistle.

The atmosphere at Lerchenborg is a remarkable one. Danish composers attend in force, led by the elder generation of Ib Norholm and Per Norgard. There were at least two dozen there for most of the weekend, and I have never seen an equivalent number of British composers gathered together in one place. The mixture of seminars, workshops, discussions and concerts is intensive, yet it all takes place in a relaxed and informal way, for which Louise Lerche's enthusiasm *and encouragement must* be largely responsible.

This year events did not quite go according to plan. Illness caused the cancellation of one concert, and with it the performances of two of the three Bainbridge works originally scheduled, while the string quartet hired for the weekend, the *Stengaard Quartet, found* the demands of Bainbridge's First Quartet and Birtwistle's Clarinet Quartet rather beyond them, so that workshop sessions devoted to the two works had to be concentrated on rehearsing basic technical problems rather than shedding light on the compositions themselves. In other workshops on Birtwistle's *Pulse Sampler* for oboe and claves and *Deowa* for soprano

Danish and British musicians gather for a new music festival at Lerchenborg, near Copenhagen

and clarinet, the formula was much more sucessful because the musicians involved — the Swedish oboist Helen Jahren and the soprano Marianne Lund — were well prepared, so that the composer was able to illuminate the background to the works in much greater detail.

Both composers were also given sessions in which they could talk about themselves and introduce tapes of their works. Bainbridge gave a potted survey *of his career from the 1976* Viola Concerto to the recent BBC-commissioned Fantasia for double orchestra, while Birtwistle was in highly expan*sive mood, concentrating upon Silbury Air and Secret Theatre,* but at the same time talking engagingly about his childhood and first attempts at composi*tion. He had recently seen some* scores by Arvo Pärt and was amazed to discover they were just like his juvenilia, "full of white notes," while at the age of nine he revealed he had composed a piece for melody instrument and mime; evidently the seeds of his music theatre and of *The Mask of Orpheus* in particular were sown at an early age.

Because of the cancellation the proportion of talk to music was probably higher than usual at Lerchenborg — another round-table discussion involved Birtwistle and Bainbridge with Norgard and Hans Abrahamsen, in which a number of mildly contentious issues were gently tossed around, without raising hackles or drawing blood.

The final concert of the weekend brought performances of Bainbridge's First Quartet (not at all characteristic of his current work, though a new string quartet had been originally promised for the occasion), Birtwistle's *Deowa, Pulse Sampler* and Clarinet Quintet, and Abrahamsen's highly accomplished and striking Second Quartet which had been commissioned for Lerchenborg in 1981, as well as the premiere of Norholm's *Lerchenborg Acrostic,* a setting for soprano and string quartet of an acrostic *written in an idle moment* during the festival last year by the British critic Paul Griffiths.

But two concerts of music by some of the younger composers present gave an opportunity for rather more discussion. *Identity Fainting,* a set of five solo instrumental pieces interleaved and overlapped to make a com*posite 45-minute work,* was an intriguing collective experiment, but one or two striking moments aside, it failed to generate the kinds of tensions and contrasts one might have expected. There was more meat in a selection of pieces presented by an accomplished group of young Danish instrumentalists which included a fine flautist in Anne-Lill Ree and violist Gert-Inge Andersson: Martin Akerwall's *Vifter* for flute and viola proved a carefully calculated collection of miniatures with a clear textural focus, while Christopher Best's *Time Sharing* for flute, violin, viola and piano had a *nicely* sustained slow centre, but surrounded it with music of much less certain intention or achievement.

The important thing for the young Danish composers, however, was to get the performances and to be able to discuss their problems with their peers and senior colleagues. Lerchenborg provides the ideal forum for this; in Britain the nearest equivalent would be some of the Society for the Promotion of New Music's events, but they rarely attract the senior figures who were much in evidence here. I'm sure it fosters much more of a sense of a creative community than composers have in Britain, and perhaps the effects on Danish music are beginning to be seen here, too: composers like Abrahamsen and Poul Ruders are getting *London performances* with a regularity their predecessors never managed, and Lerchenborg must have played at least a part in fostering their confidence and public personas.

Andrew Clements

Liszt centenary celebrations

Musicians the world over celebrated the many-sided genius of Franz Lis: last Thursday on the 100th anniversary of his death. From Bayreuth, where he died on July 31 1886 after attending a performance of Tristan, a concert including the second piano concerto and the Faust Symphony was relayed on television across Europe. At home, it was a Liszt day on Radio 3, and the Proms paid their own tribute. The season's last concert at the Wigmore Hall, before the August holiday, was also a Liszt celebartion, and the finale too of the Songmakers' Almanac tenth anniversary series.

Liszt was hugely prolific in many genres, including song—although song does not, by and large, embrace his finest and most original inspiration. Perhaps the distinction is not especially useful: for the impulse of song runs through a great part of Liszt's instrumental music, from the earliest pieces to the last; he was such a compulsive arranger and re-arranger that genres blend and boundaries blur. Some of his greatest piano pieces, such as the Petrarch Sonnet no 3, started life as vocal settings. "Die Drei Zigeuner" is essentially a song in whatever identity it appears, although it takes new shape in not one, but several, Hungarian Rhapsodies. Behind all of his orchestral music, and even the most purely "orchestral" of his solo piano music, the voice stands as guardian and arbiter, balancing the counterpoint, shaping and moulding the phrase.

It was, thankfully, one of those Almanac evenings into which Graham Johnson's verbal collations (very well delivered on this occasion by Richard Jackson) intruded tactfully and with restraint. It was a stroke of genius to include one of Liszt's melodramas: a piano accompaniment of the purest gothick kitsch attached to the recitation of a poem by Nikolaus Lenau — extraordinary, and oddly affecting (in how many purely instrumental works of Liszt, after all, does the spirit of melodrama invisibly hover!) To include Berlioz's "Spectre de la rose" *was somehow apt — Litszt himself,* with his inimitable blend of enthusiasm and humility, would have been the first to admit that he never wrote a *song, as pure song, half as good.* The quartet of soloists (Bowen, Walker, Thompson, Davenport) was decent, even if Sarah Walker alone throughout the evening projected her music with authentically Lisztian flair.

Dominic Gill

The Proms way of celebrating Liszt Day was yet another example of the intelligent programme planning that seems particularly to mark this year's schedule. Liszt was the great speculative intelligence of 19th-century European music: virtuoso performer, prolific producer of his own music and enthusiast for that of other men, traveller, adaptor, absorber of vast tracts of European literature and visionary into the musical future. In Thursday's two consecutive concerts—the London Symphony under James Conlon, preceded by Simon Preston's early-evening organ recital—almost every one of those creative dimensions was at least suggested, and a lifelike Liszt portrait emerged from the double experience.

The LSO selection of Liszt orchestral music was festively unbackneyed, and therefore especially illuminating of the occasion. As concert opener we *heard the Two Legends, in* orchestral versions of the more familiar piano pieces only recently returned to light (this was their first London outing). *To anyone who knows the solo* pieces reasonably well, the new perspectives offered by their orchestra re-clothing promote, in turn, fresh insight into a composer hardly equalled for his ability to re-think and re-form musical inspiration (his own and other men's) into alternative performing guises. "St Francis of Assisi", sounded on gentle concord of winds and limpid *divisi* violins, gains a wholly new "interior lighting": does it also lose a degree of musical consistency and cogency?

An extension of the same thought and compositional processes came thereafter, with the Schubert/Liszt *Wanderer Fantasy* for piano and orchestra. The Schubert original is boldly drawn out on a grand sound canvas; but in terms of the dramatic tensions that a Schubert solo pianist can explode out of the very fibre of the notes, more is finally lost than won — a single piano can be terrifyingly insistent, and a piano-with-orchestra simply cannot. But the large, calm body of tone and the perfectly adjusted style of Jorge Bolet, who was in superb form and who is currently matchless in this repertoire, worked its own *manner of compensation.* Orchestral support more closely attuned to his particular ways of commanding the instrument would have worked even more.

After the interval Conlon, a determined advocate of the two Liszt symphonies (as his recent Erato recordings attest), returned to conduct the rarer of them—the *Dante*—in a perform*ance of considerable sensitivity,* understanding, and accomplishment. The first movement, "Inferno," is a classic outburst of the sulphurous Liszt, with its baying stopped brass, acrid wind, and central vision of romantic regret. "Purgatorio," rather more difficult to hold together in its slow pace, halting statement, and diaphonous instrumentation, exposed passing insecurities in all the LSO string department; but in the final *Magnificat the Finchley Boys'* voices floated down from the highest tier to achieve an exactly-judged effect of seraphic radiance.

It's *a work at once grand in* conception and unequal in execution—was there another 19th century composer of similar stature who could so *often be both, in the course* of a single large-scale work? The Preston organ recital, delivered with tremendous authority and panache, had *seemed to force concentration* on this question. The gigantic sonic thunders and grandiose pealing chorales, the endless chromatic slithers and contrapuntal ingenuities out of which both the BACH Prelude and Fugue and the "Ad Nos" Fantasy and Fugue might be said to be made, certainly stun innocent ears into exhausted submission. The reminder of the hollow, unsatisfying side to Liszt's creative persona was probably necessary, but on this occasion it was also slightly unwelcome.

Max Loppert

The Northern Sinfonia under Wilfried Boettcher visited the Albert Hall on Friday for a mostly-Mozart Prom (which included a most elegantly turned and finely shaded account of the C major Piano Concerto, K415, by Imogen Cooper). The insertion into the second half of George Benjamin's *A Mind of Winter* (1980-81) for soprano and chamber orchestra, which the composer himself conducted, made for a gleaming, refreshing, very attractive 20th-century interruption.

Benjamin has set the short Wallace Stevens poem in an orchestral texture of startling vividness—a landscape of wind and snow conjured up in a few simple strokes (and by means of a tellingly economic use of harmonic contrast). The whole piece doesn't seem to move far beyond its opening *tronraille* and the vocal writing (at least as demonstrated by *Teresa Cahill in frayed voice) is less* interesting than the instrumental. Nevertheless, Benjamin's cool accomplishment is remarkable.

Max Loppert

Russian bass ill

The Russian bass Paata Burchuladze is unwell and unable to perform Shostakovich's Suite on Verses of Michaelangelo in the BBC Philharmonic's Prom on August 7.

Edward Downes will now conduct a revised programme with violinist Dmitry Sitkovetsky.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

August 1-7

PARIS

David Simpson, cello, Noelle Spietle, harpsichord: Geminiani, Bach, J.C.E. Bach, Soler, Boccherini (Mon 7pm). Auditorium des Halles, 5 Porte Saint Eustache.

Sinfonietta de Picardie conducted by Alexandre Myrat: Shostakovich, Mozart (Thur 8.30pm). Saint-Severin Church.

All these concerts are part of the Paris Festival Estival. Taped information in English round the clock (4764 9080).

LONDON

National Youth Orchestra of Great Britain conducted by Mark Elder. Debussy and Messiaen. Cynthia Millar, ondes martenot, and Peter Donohoe, piano. Royal Albert Hall (Wed 7pm).

BBC Philharmonic Orchestra conducted by Edward Downes. Shostakovich and Tchaikovsky. Royal Albert Hall (Thur).

NETHERLANDS

Amsterdam, Westerkerk. Ursina Caflisch, organ. Bach, Widor, Alain, Reger (Mon). (24 77 66).

Amsterdam, Oude Kerk. Organ recitals by Willem Vogel (Tue) and Vincent de Vries (Wed).

VIENNA

Volksoper Orchestra conducted by Ernst Maerzendorfer. Schubert, Strauss. Arkandehof (Tue).

Alexander Jenner, piano. Schubert, Chopin, Debussy. Laxenburg palace (Wed).

European Community Youth Orchestra conducted by Eliahu Inbal with Michel Berof, piano. Ravel, Liszt, Beethoven. Konzerthaus (Thur).

NEW YORK

New York Philharmonic: On the Great Lawn in Central Park, Leonard Bernstein conducts a programme of Bernstein and Tchaikovsky with soloist Glenn Dicterow, violin (Mon).

WASHINGTON

Summer Festival (Concert Hall): Remains the same, viz. highlighted by a visit from the Newport Folk Festival in August, this summer-long string of popular singers and musicians includes recital performance Neil Sedaka, Shirley Bassey, Dionne Warwick and Petula Clark. Ends Aug 27.

CHICAGO

Ravinia Festival: Beaux Arts Trio. Haydn, Shostakovich, Rachmaninov (Mon); New York Philharmonic conducted by Leonard Bernstein. Bernstein, Tchaikovsky (Tue); Christopher Hogwood conducting with Michael Bilson fortepiano. Mozart, Haydn (Wed); Chicago Symphony conducted by David Zinman with Itzhak Perlman violin. Rossini, Bruch, Sarasate, Ravel (Thur). Highland Park. (728 4642).

TOKYO

Stanislav Bunin (piano): Haydn, Mozart, Schumann, Chopin. Hitomi Hall, Showa Women's College. Sangenjaya (Tue). (335 1861).

FINANCIAL TIMES SURVEY

Monday August 4 1986

Oil and Gas Exploration

The fall in prices has forced the oil companies to cut development budgets and re-examine their strategies just when more finds are needed.

Cutbacks bring risk for supplies

By Max Wilkinson, Resources Editor

THE COLLAPSE of oil prices this year in a wild swing from $30 to $10 per barrel has given a perversely optimistic signal to most oil consumers about the state of world supplies.

Most obviously it proclaimed that oil is once again in abundant supply and that the *Organisation of Petroleum* Exporting Countries (Opec) has lost its power over the oil market, perhaps for several years.

Lower oil prices appear to have stimulated at least some increase in consumption by motorists and companies with the capacity to switch from the use of gas to oil. If lower prices (say $15 to $17 per barrel) were to be sustained for a year or two, a significant further shift back to oil might well occur, while the stimulus to invest in exploration and energy conservation would be much weakened.

This process has been seen by many commentators as the more or less benign operation of the price mechanism in a market which has been under a cartel for far too long. Lower prices would bring demand and supply back into balance by stimulating the world economy, and hence the demand for energy; by making oil relatively more attractive than competing fuels, and by reducing the incentive for oil companies to develop new sources of supply or pump oil from the most expensive of existing wells.

Major cutbacks in capital expenditure announced by almost every oil company have caused little alarm, and surprisingly little comment outside the industry. The Texas companies *which supply drilling and other* equipment are already suffering acutely, with worse in store. This summer the Hughes Tool count of rigs operating in the US and Canada fell to 705 compared with 2,200 a year earlier.

In the north east of England and Scotland, the full force of the storm has yet to hit the yards which fabricate modules *and jackets for North Sea rigs.* When it does, calls for an easing of the tax regime are bound to increase.

Serious though the impact on employment may be, the more important effect is likely to be on the security of supplies of oil for the Western nations. For just at the time that oil prices are *falling, discovery of new* sources of oil has been getting more difficult. A recent paper by Shell shows that the cumulative discovery of new oil has been falling steadily in relation to the number *of* exploration wells drilled in recent decades, with a marked tendency for the graph to flatten in recent years.

The Shell paper observes: "This fall in the discovery rate has occurred in spite of the many considerable advances in the industry's technical capability, notably seismic, where today's systems are 10 to 50 times more effective than a decade ago. This decline in rate is also in spite of the increase in the number of exploration wells *drilled* in recent years."

Of course, surprises are inherent in the process of exploration, so that it would be foolish to rule out the possibility of major new *oil* finds in the free world *outside* the Gulf states, perhaps in the far north.

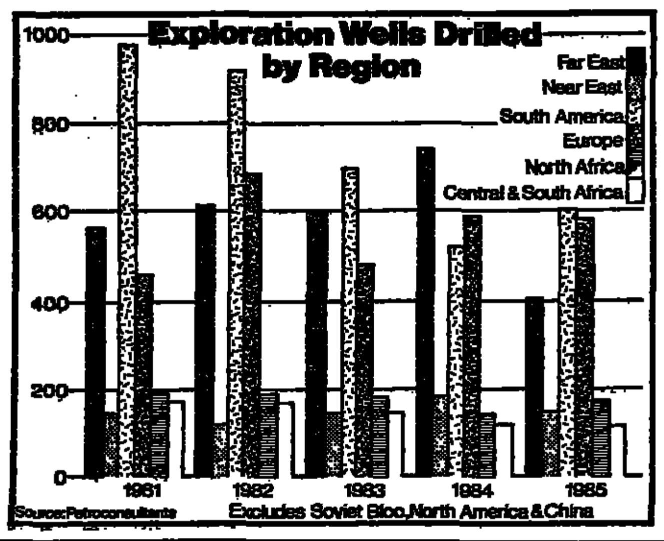
However, recent history does indicate that the Middle East *remains the richest area for* exploration as well as holding half the world's known oil reserves. Most of the more accessible parts of the non-communist world have been examined by geologists, so that chances of finding a large cheap supply comparable to that of the North Slope of Alaska or the Brent and Forties fields in the North Sea do not seem to be high.

During the next 10 years, therefore, the cost of finding and developing new oil sources is generally expected to rise at an increasing rate. In the North Sea, for example, developments in the mid to late 1990s will be in deeper water or will require more advanced techniques for extracting small quantities of oil from difficult strata, or enhanced recovery techniques for extracting the last drop of oil from existing fields.

According to Shell, the upper limit for the range of investment costs by 1990 is likely to be about $60,000 per barrel a day, or about three times the cost of North Sea developments in 1975. Oil from the Gulf will then be much cheaper at a little over $20,000 per b/d in investment costs (at 1983 prices).

It is clear therefore that the incentive to invest has been dramatically reduced just at a time when the cost of replacing reserves as they are used up is rising steadily, even steeply.

According to a survey by the New York-based Petroleum Analysis, the average expenditure on exploration and development for each barrel of oil discovered by the 21 largest US companies rose from $6.2 in 1984 to $8.7 in 1985. Moreover, the range of costs was very large, from $3.4 for Tenneco to nearly $29 for Standard Oil.



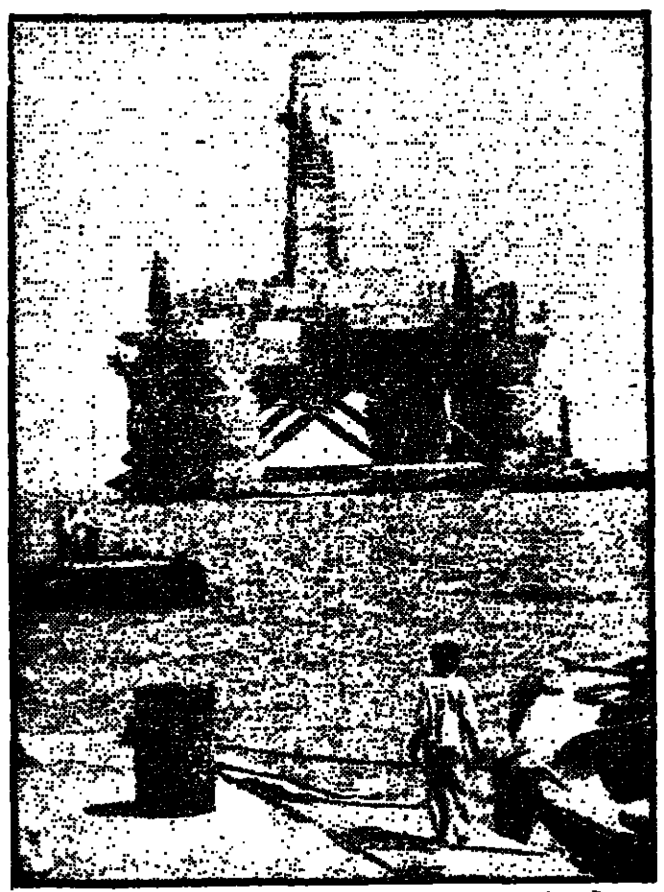
On average these companies *replaced only 85 per cent of* the reserves which were used up in production after a good year in 1984, when discoveries were 110 per cent of production. However, the general trend for US companies is for a gradual depletion of their reserves.

This reflects the facts that new oil finds in the North *American continent are tending* to be smaller, while prospects elsewhere in the world now seem less bright than they did a few years ago.

The North Sea oil fields, for example, are in a mature phase. Any major new discoveries are likely to be in much more hostile waters to the north and west where new and improved technology will be required. Exploration in the continent of Australia has yielded no further major oil fields after the discovery of the Gippsland Basin fields in the Bass Strait.

Exploration in the China Seas has been very disappointing. Elsewhere, oil companies have had to weigh a combination of environmental and political hazards which have tended to diminish the attractiveness of exploration.

The fall in oil prices has therefore forced most oil companies not merely to cut exploration and development budgets by 30 to 50 per cent, but to undertake a fundamental *re-examination of their strategies.*



The rig Polar Pioneer is towed through the Suez Canal en route from Japan to Bergen to begin a *five-year contract with Norsk Hydro.* It is the biggest object to have negotiated the canal

This has ranged from the sharp decisive reaction of Exxon, which announced a 26 per cent cut in capital expenditures this year from a planned $8bn and a 15 per cent reduction in its workforce, to the much more cautious stance of Royal Dutch/Shell, which emphasised the need for continuity in its exploration programme.

As Mr Clifford Garvin, Exxon's chairman, succinctly remarked: "At $10 to $15 per barrel it is simply not as attractive to look for oil as it was before. Moreover, companies that do the looking are going to have less money to do the job."

Shell has tended to emphasise the need to keep up the momentum of exploration as much as possible by cutting costs and finding new and cheaper engineering solutions for developing reserves.

As Mr Bob Reid, chairman of Shell UK said recently: "In the earlier stages of North Sea development, the emphasis was very largely on speed; maintaining high momentum on projects was the critical factor. In the present climate, the priority is cost and by adjusting our approach significant savings are possible."

Though Shell emphasises that exploration will remain the "seed corn" of the group's future, it seems clear that the more cautious approach to development will result in deferments and perhaps a large reduction in annual capital outlays. The distress of the supplying industry is already working to the oil industry's advantage, with costs for hiring rigs and fabrication pushed dramatically down by competition and oversupply.

In Britain, there have already been claims of "dumping" of oilfield equipment by US companies anxious to recover marginal cost in the North Sea.

Even so, a strategy of replacing oil reserves by buying assets from competitors more overburdened by debts may well seem preferable to the uncertainties of exploration. So *far the major companies* in a position to do the buying have been biding their time in the expectation that companies with distressed cash flow will come under greater pressure to sell.

For the stronger independent companies with operations concentrated in the upstream ends of the business, greater integration into the downstream either by merger or acquisition must begin to look relatively more attractive.

From several different points of view, therefore, exploration is likely to be under pressure. Large low-geared companies with an eye to a future recovery of oil price will undoubtedly *keep exploring,* but they may divert some resources to acquisition.

Small, highly-geared independents are unlikely to be able to afford to explore much even where they see excellent prospects, and the independents with less debt, besides following a prudent capital expenditure plan, may well consider diversification out of upstream oil. British Petroleum's decision to spend some $500m buying into the US animal feedstuffs industry may provide an example for such companies.

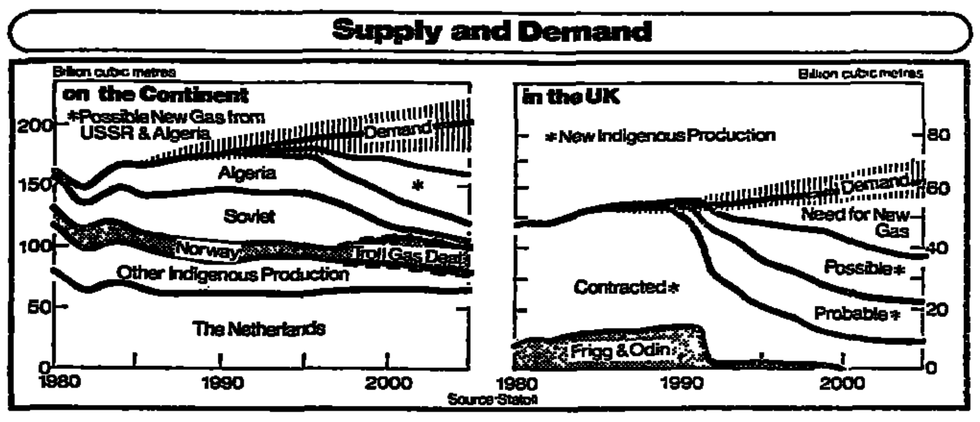
All these varied decisions will be viewed against the generally rising cost of finding and exploiting oil reserves, and an accepted wisdom in the industry that oil prices may remain below $18 to $20 per barrel for several years while most Gulf states remain under strong pressure to maximise output to keep up revenues.

However, there is also an overwhelming probability that oil prices will rise again, perhaps very steeply as reserves outside the Gulf begin to run down and the world once again depends on the Arab countries' supplies. This could happen at any time within the next five or six years.

Meanwhile, the greater the depression in prices and the larger the cuts in exploration and development, the greater will be the rebound.

When this happens the oil companies which have prepared themselves to take advantage of recovery will be in a commanding position. Meanwhile, they will need nerve, judgment —and money to make investments which cannot be justified on present prices but depend on a gamble about the timing of the next recovery.

Oil and Gas 2



North Sea

Rigs standing idle

ANYONE WANTING evidence of the extent of the damage caused by the fall in oil prices to activity in the North Sea need only walk along the beach at Great Yarmouth or Aberdeen and count the number of great steel rigs standing offshore waiting hopelessly for something to do.

At the latest count, there were about 40 idle rigs in the North Sea, compared to five a year ago. There is now less exploration and appraisal work going on than at any time for the last three years.

When the offshore industry last went into recession in 1983 it was smartly restored to health by a package of tax changes, which had the effect of making the Government pay for about 80p of each £1 spent on oil exploration in the North Sea. From near paralysis activity sprang back to record levels within a year.

Such a dramatic recovery this time is inconceivable. While the industry is bleating for further fiscal incentives—perhaps a package of measures to lower the rate of PRT and to remove the ring fence so that all development costs become offsetable against PRT—the Government appears unlikely to take any such radical step. But even if it did, it would not be able to reverse the decline caused by a drop in the oil price of more than 60 per cent.

The consequences of lower oil prices on activity are probably only just beginning to show now. The movement was so sharp and unexpected that it took the industry some months to react with substantial cuts to their budgets.

While activity in the North Sea in the first half of this year was well down on 1985, during the second half it is going to be much lower still.

Last year Lasmo was planning to participate in 26 wells in the North Sea during 1986. Its budget has now been cut in half, with about 13 wells drilled by the end of the first half, some of which it was too late to cancel, and just one during the remainder of the year. The pattern seems roughly the same across the industry.

Some plans have been merely postponed rather than cancelled. The emphasis, which was once on speed—so that oil could be brought on stream as quickly as possible—is now on cost and on caution.

Not only is the potential cash-flow from any discovery much reduced by lower oil prices, companies which embarked on exploration under the impression that the Government would pay for most of it may now find that their tax shelters have collapsed as the income against which to offset exploration costs has been cut by two thirds.

The large cuts in exploration budgets already announced by nearly all companies operating in the North Sea may well be followed by still larger ones. The first round was based on oil price assumptions of about $15 to $20 a barrel for the rest of the year, a forecast which many companies have now replaced with a lower range of $10 to $15, and some believe even that might prove too high.

The only sector in which drilling is still going ahead on any scale is in the Southern Gas basin. This is because the prices that British Gas is paying for its supplies have fallen modestly by comparison with the plunge in crude oil prices, and drilling for gas now seems a relatively profitable exercise.

In the rest of the North Sea most of the current drilling is for commitment wells for which there is some reasonable chance of finding a respectable amount of oil. In the case of wells where prospects are poor the Department of Energy is becoming increasingly willing to relieve companies of their commitments.

Meanwhile, development is going ahead fairly smoothly on gas discoveries in the North Sea, with a series of large projects under way in fields such as Audrey, Amethyst and Morecambe.

However, gas development will scarcely keep the offshore fabricators busy, as the size of the gas structures is relatively small. A typical Southern Gas Basin jacket costs £7m, compared to about £50m for the jacket ordered for the Tern field.

How companies cope in these difficult times depends more than anything on their size. The major oil companies are protected by their downstream interests, by their wide geographical spread of acreage and by strong balance sheets.

While even the largest companies would eventually have to pull out of the North Sea altogether were oil prices to stick at $10 for ever, on any reasonable hope of recovery the majors will want to keep a toe in the water.

Both BP and Shell presented a conference of energy economists meeting in London last month with a view of the North Sea which if not exactly optimistic, was not uniformly pessimistic either.

Mr Robert Reid, chairman and chief executive of Shell UK, said: "We shall certainly do what we can to keep up a reasonable level of exploration work. I find it difficult to believe that a hiatus in exploration and appraisal drilling will be allowed to last too long."

Mr Basil Butler, a managing director of BP, forecast a modest recovery in oil prices and pointed out: "The planning lead time for most of our activities is five to 10 years, and I find it hard to believe that between now and then prices will not recover significantly, although perhaps not to the level of the early 1980s."

However, he did say that oil prices were likely to remain low by past standards until the end of the decade with consequences for activity in the North Sea. "The level of acivity will fall off, and there are going to be some casualties in the process," he said.

Some of those casualties will be in the offshore supply industry, which is already feeling the pinch. Owners of rigs are now desperate to rent them on any terms at all to avoid paying the maintenance and insurance costs of leaving them idle.

Rigs are being hired in the North Sea at daily rates of about $10,000, about one sixth of prices reached in the late 1970s.

The other casualties are likely to be the small UK independent oil exploration companies, which are dependent on the North Sea and whose revenues have fallen sharply so that they have not enough cash to meet their obligations, and borrowings are escalating alarmingly.

In any but the most optimistic view of oil prices, there can be scant future for these North Sea small fry. Neither are they likely to be rescued by the larger companies, as their modest stakes in the smaller and more marginal fields combined with their weight of overheads must make them unattractive to the majors at almost any price.

The most likely route to survival is a wave of mergers between the independent companies, to build more stable, robust entities.

Such upheavals and the lapse in exploration and drilling activity in the North Sea may have serious consequences for the 1990s when oil from producing fields starts to run down. The immediate prospect for North Sea output is almost unchanged by the drop in the oil price.

Even with oil below $10 a barrel, the major fields more than cover operating costs, which are easily in single figures. Almost regardless of what oil prices do over the next three years, North Sea oil production will be almost unchanged, although towards the end of the decade the effects of investment not made now will begin to show.

The oil price will have to rise a long way before this poor exploration picture changes. Most of the oil yet to be found in the North Sea is in small and marginal fields that probably need an oil price of more than $20 a barrel to become viable.

The outlook for development is nearly as grim as for exploration, with most of the projects which looked promising last year now firmly back on the shelf. As recently as last summer when operators were looking with some confidence at an oil price of $27 a barrel, stockbrokers Wood Mackenzie forecast that new fields containing some 2bn barrels of oil would be brought on stream by the early 1990s, involving a total capital expenditure of more than £8bn.

Now such forecasts look far wide of the mark. According to figures by the Institute of Fiscal Studies, of the six major new fields which were due to be developed shortly only one is profitable with oil at $15, let alone at $10.

The lull in development activity is therefore hardly surprising. Only two new oil developments are going ahead on schedule—the Shell/Esso Eider and Tern fields which should start to produce at the end of next year.

Lucy Kellaway

Norway

Dismay over tax changes

THE NORWEGIAN Government's proposals to change the North Sea tax structure were greeted initially as a step in the right direction. But the operators' organisation NIFO was quick to respond that it was unhappy with the government's suggestions.

Even though the oil industry regards the country as the "last big oil in Europe," the general feeling about the future is that "you still have to swallow hard before going into Norway."

The new concessions are expected to come into force in January 1987, if approved by Parliament in the autumn. There are four principal changes:

● International companies will no longer have to carry state interest (through Statoil) during exploration. Norwegian companies have been exempt from this ruling. Savings for the foreign companies as a result of this concession could be US$130m over the next four years.

● Royalties (presently 8 to 16 per cent) would be abolished on future developments, but there has been no move to ease royalty payments on present production, or developments in progress.

● Depreciation allowances would start from the first year of investment instead of the first year of production as today.

● The 1980 "special tax" will be reduced from 35 per cent to 30 per cent. But this concession could be effectively cancelled out through changing the rules for uplift, an investment allowance against the special Tax, for new investments.

NIFO says the positive elements in the changes will apply only to future fields, and the first of these to come on stream will be in 1993. Changes are needed today, it says, and critises the government for not keeping to promises made in 1975 and 1980 that the tax structure would be changed for the better if the economic situation indicated.

The new rulings only redistribute the tax burden over more profitable fields, NIFO claims. The abolishing of uplift could mean losses as much as NKr 1-1.4bn (10^9) over a 10-year period for certain fields or companies, NIFO says.

Ten-dollar oil spells trouble for Norway's offshore industry, where field development costs are about US$20 a barrel. This brings into question the future economics of all imminent developments such as Troll, Sleipner, Gullfaks, Oseberg, Snorre, Draugen and Heidrun unless of course taxation or prices, or both, change for the better.

Just as everywhere else in the world, companies in Norway have been cutting exploration expenditure. Only 35 exploration wells are planned for this year, and 25 for next, compared with 50 last year. Most of these are commitment wells rather than new investments.

Seismic acquisitions are expected to remain at approximately the same level as last year, some 110,000 kms. The reason for this apparent anomaly was attributed by one oil industry wit to a quirk of human nature:

"If you show an accountant a drilling rig, he sees a big lump of metal which costs a lot of money to construct and costs a lot of money to run. If you show him a seismic programme, all he sees is a pile of paper."

Nevertheless, developments are continuing. BP expects to produce the first oil from its 200m barrel Ula field in September, six months ahead of schedule, at an initial rate of 26,000 b/d. BP says the cost of the project is NKr 8.6bn, down some NKr 1bn from its first estimate. BP is still evaluating the development of Gyda, which holds 150m barrels, and is probably a marginal project.

Norsk Hydro intends to continue developing its oil discovery off Haltenbanken, and its plan to inject Troll gas into the Oseberg reservoir. All partners now approve the gas injection plan, it says.

Companies have until October to submit applications for the 11th licencing round, when acreage in the Barents Sea will be on offer. The price of a data package with 12,000 kms of seismic for acreage in the Barents Sea between 72° and 74°N, NKr 8m, gives a preliminary illustration of the costs to be expected.

The failed merger between Saga and Elf Norge has been one of the chief preoccupations of the Norwegian oil industry this summer.

Saga has most of its assets in the Gullfaks and Oseberg fields, which are yet to be developed, and are marginal at the present oil price. Elf with its Frigg production is one of the giants on the Norwegian oil scene. At a 15-dollar oil price, Saga's assets have been estimated at 70bn (10^9) NKr, at a $20 price they are 100bn (10^9) NKr.

Saga still has to find some US$200m to fund its North Sea investment programme over the next four years. Norsk Hydro has declared an interest in expanding Saga's working capital by NKr 500m, but not, they say, in taking over.

As Saga is Norway's third domestic oil company, after Statoil and Norsk Hydro, securing its financial and independent future is regarded as a topic of importance for most of Norway's politicians. The Conservative Party (Hoyre) has said that it would not oppose any effort by the government to inject cash into Saga, to keep the company independent.

It says it is sceptical about any approaches from Norsk Hydro, or even Statoil, which could lead to a merger between Norwegian companies. The search for white knights continues.

Maria Kielmas

Troll Field

Gas deal is signed

THE US$60bn Troll/Sleipner gas sales deal looks set to establish Norway as Europe's largest gas exporter.

It was signed in June between Statoil and a European consortium led by Ruhrgas AG of West Germany and including BEB and Thyssengas of West Germany, Gas de France, Belgium's Distrigas and Gasunie of the Netherlands.

Deliveries are expected to begin in 1993, but some concern has been expressed that the economics of the deal hinge on an oil price of US$30/barrel.

The total volume of gas involved is 450 Bcm. Deliveries in 1993 will start at a level of 4 Bcm/year, reaching 20 Bcm/year in 2000. The first supplies are likely to be from Sleipner as Troll is not expected to come on stream until 1996.

As a result of the contract, Norway will nearly double its annual gas output from last year's 25 Bcm. It will also increase Norway's share of European gas supply from 13 per cent to 24 per cent by the year 2000.

Operator for the first phase of Troll development will be Norske Shell. They will install a 30-well platform in 1,100 ft of water in the eastern part of the 46 Tcf reservoir. Development of the western part of Troll, which also contains 320m barrels of oil, has been delayed until there is an improvement in the oil price.

One fixed platform is planned for Sleipner, which is expected to go on stream in 1993. The deal vetoed by the UK government would have involved three platforms. Total reserves in Sleipner are 190bn cu.m. Initial development wil be centred on the eastern 50bn cu.m. The western structure contains carbon dioxide.

There are two possible pipeline routes. The first is through the 36 in line to Frigg. By the time Troll comes on stream, Frigg gas will be nearly depleted. From there, the route would be to Heimdal and the existing Stapipe/Norpipe system to Emden.

The second possibility would be a 36 in, 228-km pipe to Sleipner, and then a 38 in, 829-km pipe to Zeebrugge. Statoil is still keeping its options open for a posible route through the UK sector and a future UK deal, using the Frigg-St Fergus line.

There are still several issues to be tackled. Troll straddles four blocks and two licence areas, requiring the resolution of unitisation on Troll, and an extension of the licence period for Troll partners until the year 2020 when the supply agreement expires.

The task will be further complicated by Norsk Hydro's plan to use Troll gas for injection into Oseberg. Hydro plans to install a five-well subsea system, the Troll Module, in 1,000 ft of water in the eastern part of the reservoir. It will draw some 70m cfd of gas during 10 years.

There is still no clear picture how Norway's new taxation will affect the economics of Troll. But clearly, government fears that Europe's largest offshore field would be uneconomic without them, forced the tax changes through.

There is still a question whether the huge influx of Norwegian gas on to the European energy market will depress prices. The Troll/Sleipner deal is unusual for Norway in that it is based on a supply rather than a depletion basis, and tied to an indexation formula.

For Gas de France Troll/Sleipner gas will be pegged 40 per cent to heavy fuel oil, 35 per cent to domestic fuel oil and 25 per cent to the French inflation rate minus 1 per cent.

The Troll/Sleipner deal eases Western Europe's reliance on future gas imports from the Soviet Union, at least temporarily. The interest expressed by southern European countries, particularly Spain, in buying Norwegian gas, indicates Norway's penetration of Algerian export markets.

But Soviet and Algerian gas is cheaper to produce than Norwegian, and there is little reason to assume that the two countries will not step up competition and depress prices.

M. K.

Oil and Gas 3

Canada

More pleas for aid

THE PRICE collapse has neutralised a revival in Canada's oil industry. With the removal of restrictive government controls, the industry was looking forward to a bright future, if the oil price held. It fell.

The Conservative government scrapped the four-year-old National Energy Program, which restricted prices, markets and foreign investment. It also introduced the phasing out of the Petroleum Incentives Program, designed to encourage frontier exploration in the Arctic and offshore.

The new measures were designed to deregulate oil and gas prices, eliminate the government's back-in on frontier exploration, bring in tax and royalty cuts over the next three years, and make tax credits in frontier exploration success—rather than performance—motivated.

But the price slump has left companies clamouring for bigger and faster tax incentives and loan guarantees from the government, and a postponement in gas deregulation. Canada's provinces are also bickering with one another over which one needs government help most.

In Alberta, which produces 90 per cent of Canada's oil, only some 37 out of a total of over 500 available rigs are working. The expectation is that even this figure will decrease. Exploration programmes have been cut by 75 to 80 per cent and companies' cash-flow halved.

The provincial government of Alberta recently introduced a C$200m aid programme to increase industry activity. It is intended to subsidise development drilling, well servicing and geophysical work but to benefit from the package, a company must have cash flow. Nick Taylor, president of Lochell Exploration and leader of the provincial Liberal Party, criticised it, saying it would help "only a well-heeled company."

Nor is the aid package likely to assuage the call for tax cuts. Companies have been urging Mr Marcel Masse, the new Federal Energy Minister, to speed up the end of Petroleum Gas and Revenue Tax (PGRT), some 10 per cent of revenues. This could boost the producers' flagging budgets by C$700m but will again only benefit the top 52 who actually pay PGRT, out of a total of 2,000 producers.

The National Energy Program gave Canadian companies very definite advantages to pursue high-risk exploration, and to incur considerable debts. The idea of a tax break to pay off loan interest to a bank, or in the case of larger companies to invest outside the country, is unlikely to gather many supporters outside the oil industry.

But the Federal government is giving the impression of bowing to industry pressure over the question of development of the Hibernia field. Located offshore Newfoundland, the Mobil-operated field holds reserves estimated at 1bn barrels. The Federal and Newfoundland governments finally approved a Hibernia development plan, costing C$8bn, and stipulated 22 conditions.

Hibernia will be the only major new field in Canada for the next few years. Project economies were calculated using an oil price of $20-$25 when it comes on stream in 1992. Following the price fall, the chairman of state-owned Petro-Canada, a 25 per cent partner in the field, was quoted as saying that it makes good sense for the government to carry part of the risk on Hibernia, to see that the development goes forward.

The Federal government indicated it would guarantee C$1bn of the debt on Hibernia. This has not gone down well in Alberta where the gesture is viewed as the government playing politics with unemployment. Newfoundland's long-term unemployment is over 20 per cent but not regarded as oil industry related.

The government claims that Hibernia development will create 10,000 jobs in Newfoundland. The Alberta producers dismiss this, saying that the offshore oil industry is not labour intensive but their traditional onshore industry is. For the same investment in Western Canada, two or three times as many jobs would be created, and assist the oil industry at the same time, the producers say.

Another line of thought is that if the government has to support frontier projects, it should do so in the Arctic regions, and develop the infrastructure.

In the opinion of some, dismantling of the PIP will either close down Arctic operations or leave them in the hands of the major companies. Reserves in the Arctic region are estimated to be as high as 10bn barrels. There are already pipeline facilities at Norman Wells which tie into the national grid. Development of Hibernia would require the construction of a completely independent system.

The Gulf Canada-operated field Amauligak, with reserves of 700-800m barrels and possibly 1bn, was to be the lead project in Arctic/Beaufort Sea oil production. The first 500,000 barrels of production from Amauligak will be loaded on to a tanker this summer.

Gulf is drilling its third delineation well on Amauligak but, despite the field's promise, says it has no firm plans for further drilling in the Beaufort.

Other players in the Arctic are suspending their plans. Debt-laden Dome Petroleum dropped plans for a delineation test on its Adlartok discovery. Esso plans to spud one further well in October, possibly on the Tuktoyaktuk Peninsula, and then wind up its programme. The Panarctic Consortium drilling in the Arctic Islands has no firm plans for 1986-87.

Falling crude prices are also complicating Canada's gas deregulation, due to come into force on November 1. Supply and price controls on crude and products were removed in June last year.

The main problem this created for the producers was a lack of pipeline capacity on the Interprovincial Pipe Line system to eastern markets. The creation of an attendant secondary spot market, as producers sought to fill any spare pipeline capacity, further depressed prices.

Producers in the past sold their gas to pipeline companies, which in turn resold it to distributors and end users. With gas decontrol, as well as the problem of pipeline transmission companies becoming common carriers not monopoly carriers, decontrol at the distribution end is not complete. David Hicks, president of Westar Petroleum, comments: "The producing industry supports deregulation, but in its entirety."

But Nick Taylor is not at all impressed with decontrol. The free market process, he argues, will result in smaller companies, already suffering disproportionately from the price collapse, to be swallowed up by the larger ones.

Hicks says: "Decontrol means going back to the early 1900s when Rockefeller and his Standard Oil bought up all the pipelines and producers. History does not seem to have taught us anything. Decontrol is going to be the end of the independent company."

Producers have finally persuaded the federal government to allow them to sell gas to the deregulated US market, at prices which are lower than domestic rates. On decontrol, these rates are expected to equalise. But the producers believe that in the long-term, when they expect prices to rise again, the electorate in Canada is unlikely to vote for the free market again.

With budget cuts and job losses making a gloomy picture even gloomier, the oil industry is hoping that the question of security of supply will be raised, and persuade the Government to adopt a more industry-friendly position.

Enlightened self-interest is a better motivator, according to Nick Taylor who adds: "Oil is like whisky—the Government makes two or three times more out of it than do the producers or suppliers. They'll come round eventually."

Maria Kielmas

Drilling in the North Sea's Forties Field. The international glut of oil has forced a worldwide fall-back in drilling activity.

Offshore Contract Drilling Companies ($m)

	1985 revenue	1984 revenue	% change on year	1985 net profit	1984 net profit	% change on year	1985 net worth	1984 net worth	% change on year
McDermott Intnl. ...	3,257.1	3,233.9	+ 0.7	56.3	44.6	+26.2	1,202.9	1,204.4	+ 0.1
Ocean Drilling	633.8	698.6	− 9.3	33.7	65.8	−48.8	839.5	844.3	− 0.6
Western Company ...	500.2	593.8	−15.8	(78.1)	(16.5)	−373.3	315.7	385.1	−18.0
Global Marine	378.6	406.6	− 6.9	(220.0)	(94.9)	−131.8	290.6	515.1	−43.6
Zapata	288.7	421.3	−31.5	(63.9)	26.1	−379.3	397.0	483.0	−17.8
Rowan Companies ...	272.5	198.4	+37.3	3.8	4.2	− 9.5	579.0	379.1	−10.0
Reading & Bates ...	236.7	329.2	−28.1	(83.2)	18.7	−545.0	321.3	532.5	−39.7

Source: Value Line. Research: Rivka Nachoma.

The US

Drilling at lowest level

"THE DRILLING and exploration industry is in danger of imminent collapse, and with it will go America's hopes for energy self-sufficiency and protection against oil blackmail by foreign suppliers," warned Mr Ned Simes, president of the International Association of Drilling Contractors (IADC), in a recent letter to President Reagan.

The alarm in Mr Simes' appeal to Mr Reagan underlines the serious difficulties now being experienced by most of the major drilling companies in the US. Four years ago the industry was prospering like never before: operators were ordering expensive new equipment with the help of generous bank loans, and confidence was at an all-time high.

Today, US drilling activity has dropped to its lowest level ever recorded. The average rig count in the US, which had peaked in late 1981 at 4,530 rigs, fell by 58 per cent to 790 in the second quarter and the average is likely to be even lower in the current quarter.

Average rig count

	Number of rigs
1980	2,909
1981	3,970
1982	3,105
1983	2,232
1984	2,428
1985	1,980
Jan. 1986	1,810
Feb. 1986	1,444
March 1986	1,139
April 1986	986
May 1986	781
June 1986	765
1st 6 months 1986 ...	1,131

Source: Hughes Tool

Drilling rigs are being mothballed all along the coast of the Gulf of Mexico, most drilling contractors have slashed their dividends and the more heavily indebted are locked in delicate negotiations with their increasingly nervous bankers.

Mr Russell Luigs, chief executive of Global Marine which was one of the fastest-growing offshore drilling companies before it was forced to file for Chapter XI bankruptcy earlier this year, says that more equipment is idle than at any time in the industry's history.

Drilling rigs with new contracts are working at severely depressed day rates due to increasingly intense competition for relatively few jobs. In late April Global Marine reported that half of its modern fleet was idle and announced a first quarter loss of $36m. The situation is likely to have worsened since then.

Mr Hugh Kelly, president of Ocean Drilling and Contracting (ODECO), one of the healthier companies in the sector, expects some large US offshore drilling contractors to be forced out of business this year.

ODECO plans to increase its market share by picking up equipment sold by competitors at distressed sales.

Onshore the story is much the same although the financial sums are not quite as horrendous. Less than a fifth of Parker Drilling's fleet of land-based drilling rigs are working and Mr Robert L. Parker, the company's president, says that in the current environment "all you can do is keep as many good people as possible and continue to pare down the company." Parker's speciality is deep gas drilling, a sector of the market which has been particularly hard hit because of the collapse in gas prices and the current US gas surplus.

Hugh's Tool's weekly rig count figures are one of the most closely-watched barometers of the health of the US exploration industry and the latest figures underline the areas which have been hit hardest by the slump in oil prices.

The biggest single area for onshore oil and gas exploration in the US remains Texas, but exploration activity has dropped off dramatically over the last 12 months. In mid-July there were 211 rigs operating in Texas, compared with 659 rigs a year ago and the number of offshore rigs is down from 48 to 15.

Louisiana is the second most active oil exploration area and the number of rigs in mid-July stood at 263, compared with 103 a year ago. Within this total the number of offshore rigs fell by almost two-thirds from 117 to 44. In Oklahoma, one of the most heavily-explored states in the US, the number of active rigs is down from 242 to 99.

At current prices exploration activity is expected to continue to fall. Mr Bob Horton, chief executive of Standard Oil, said recently that at an oil price of $15 a barrel, it did not make sense for the average oil company to explore in the lower 48 states of the US, which is where the bulk of US oil exploration still takes place.

According to a recent study by the American Petroleum Institute—Two Energy Futures: National Choices today for the 1990s—if oil prices were to average $20 a barrel next year the number of exploratory wells drilled would drop by a third from the 12,500 drilled last year. If the price were to average $1[illegible] a barrel then the number of exploratory wells would fall to 5,000. At $10 a barrel, the number drops to 2,300.

The US gas industry is more immediately affected by the drop in drilling activity than the oil industry since the life of gas wells is shorter. As a result a growing number of analysts are predicting that the so-called natural gas "bubble" of surplus gas supplies which has overhung the market for several years, will disappear more quickly than anticipated and will force a resumption of drilling activity.

In addition, the API believes that given the rise in consumption and the decline in production and exploration in the US the current oil glut overhanging the market will evaporate in three to four years' time, and this will be followed by another oil exploration boom fuelled by rising prices.

However, for many US drilling companies and related oil service companies, the timetable may be too long.

William Ha[illegible]

Alaska

Price curb on projects

ALASKA, WHICH is more dependent on one industry than any other state in the US, and produces nearly 22 per cent of the country's oil, has much in common economically with many OPEC countries.

The state administration, which loses $150m for every one dollar fall in the crude price, relies on oil for 85 per cent of its revenue and more than a quarter of all households depends directly or indirectly on oil.

The population of 520,000 exceeds that of Qatar and is about a third of that in Kuwait or half that of the United Arab Emirates. Early in the current crisis, the University of Alaska suggested that if the price of oil remained around $13 per barrel, 50,000 jobs could be lost in the next decade.

However, as in the Gulf states, the oil boom attracted an influx from outside; some 30 per cent of Alaska's residents have moved to the area in the past four years. Now, like their Gulf counterparts, they will leave.

Those who remain can be consoled by the size of the "Permanent Fund," initiated by the state in 1976, in which oil revenues were invested. This is now valued at more than $7bn and the annual allocation of funds has been as high as $1,500 per capita.

Alaska's production, now some 1.9m barrels a day, up 5 per cent this year, is higher than that of many Opec states, including Nigeria, Kuwait and the United Arab Emirates.

However, Alaska's modest reserves, at 7.6m barrels, are being depleted rapidly and are high cost. Moving oil to the Gulf of Mexico costs some $8.50 per barrel and any new developments would require a price well into double figures.

The fall in prices, therefore, is having a profoundly negative impact on new projects and exploration drilling, which is doubly serious as new developments are required to replace the declining production from the main fields, Prudhoe Bay, found in 1968, and now yielding over 1.6m b/d and Kupurak, producing nearly 200,000 b/d.

Like some major UK North Sea fields, Prudhoe and Kupurak have been on stream long enough, during the period of high prices, to recover much of the original investment. Production will therefore continue for as long as prices cover operating costs.

Mr Robert Wycoff, president of Atlantic Richfield, said last March that Prudhoe Bay was "some of the last production we would shut in."

According to state and oil company officials, production would continue, for a restricted period, for technical, macro-economic and political reasons, even if the price were zero.

In sharp contrast, Conoco's Milne Point field, which only recently came on stream, is losing money. The development is also beset with reservoir problems and a royalty rate of 20 per cent rather than the normal rate of 12.5 per cent. The higher rate was agreed by the operator in 1969 in return for the retention of the leases that would otherwise have expired a decade later.

Negotiations are continuing but production, at 20,000 b/d, is two-thirds of the projected rate. The second phase of development has been postponed.

The low prices have not stopped the continuing development of two new fields: Standard-Exxon's $2bn Endicott field will come on stream in December next year, and will peak at 100,000 b/d, in 1988, while Arco's Lisburne field will commence production later this year, initially at 40,000 b/d, en route to a peak of 100,000 b/d.

However, these fields alone will not compensate for the natural decline in the longer-established fields, especially if low prices make enhanced oil recovery too expensive. Consequently, there is a great need for a substantial new discovery, which could come on stream faster than usual in this inhospitable area. Total output could be halved to only 900,000 b/d by 1995.

In the current harsh financial climate, the emphasis is being placed not on exploration but on development. Arco, for the first time since the original North Slope discovery, has no further major projects in either the design or construction stage.

Although the West Sak find could be more prolific than Prudhoe itself, current economics mean that work is confined to planning studies. Shell is reluctant to proceed with development of its Seal Island find and disputes with environmental groups, over drilling in the Bering Sea, is another negative factor.

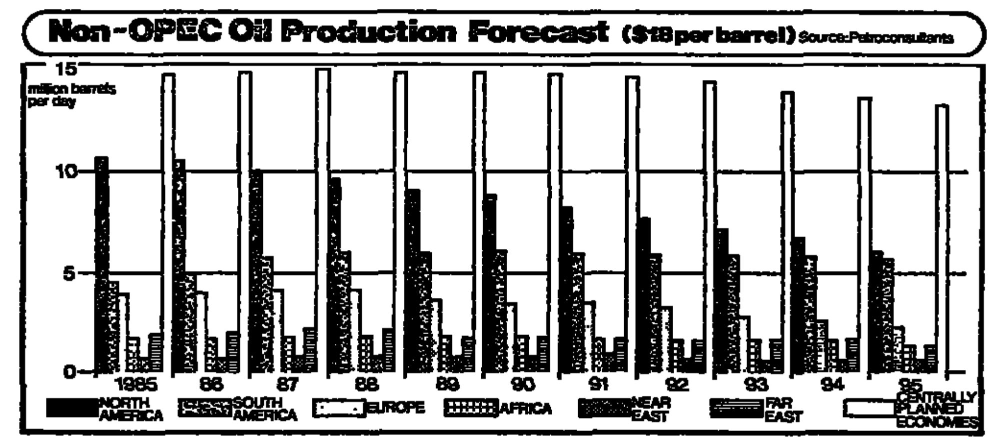
Exxon recently withdrew its bids made in Sale 92, eloquently illustrating the current industry view.

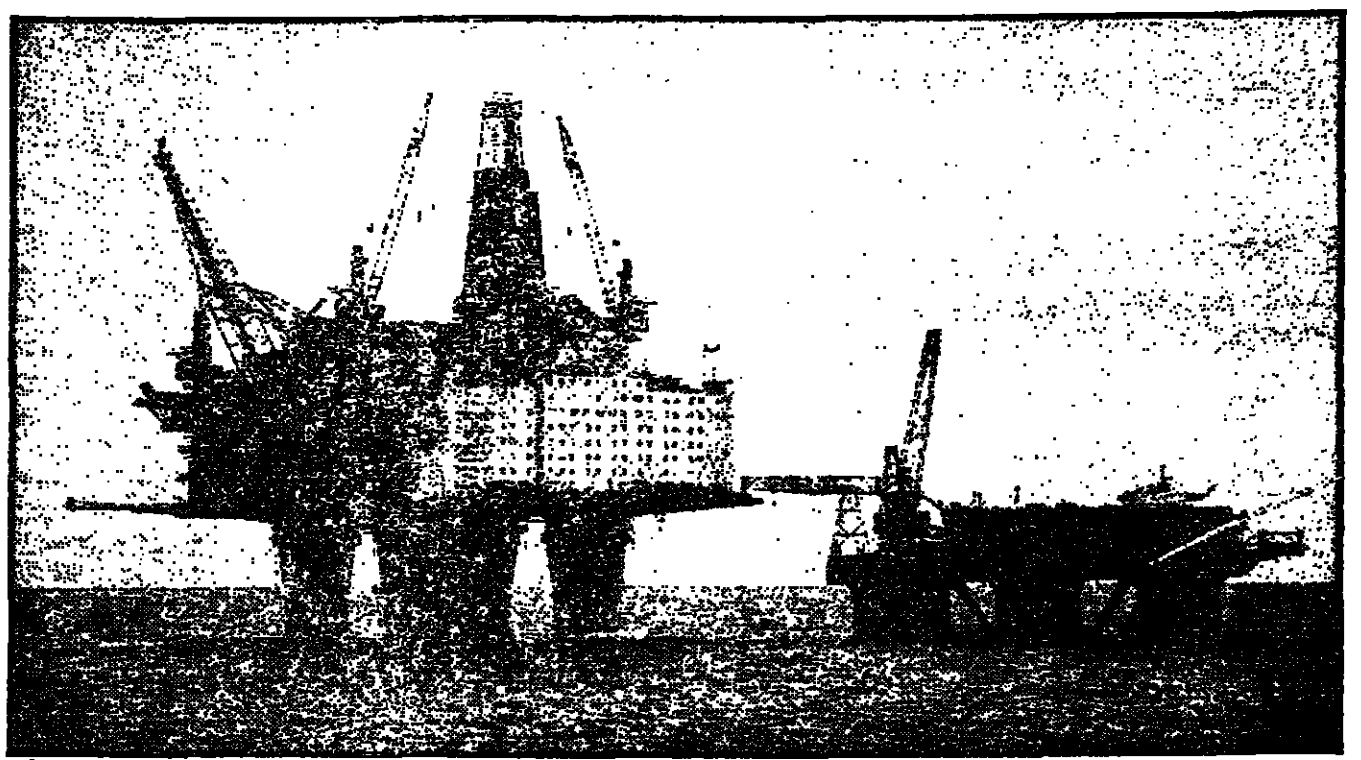
Although there is little hope that prices will provide the required stimulus in the short run, a decision by the Federal authorities to allow significant exports from Alaska could add an extra $10bn to federal and state income to the end of the century.

Mr John Herrington, the US Energy Secretary, doubtless mindful of the strength of the maritime lobby, is keen to preserve its US flag requirements on cargoes shipped to US destinations. He believes that discussions will begin only next year.

Philip Algar

Non-OPEC Oil Production Forecast ($18 per barrel) Source: Petroconsultants





Statfjord B. The Statfjord field, biggest in the North Sea, holds 3bn barrels of oil, 225m barrels of natural gas liquid and 2,000bn cu ft of gas. It is producing more than 700,000 barrels a day

Deep sea drilling

More UK licences offered

AT A TIME when the fall in oil price is threatening the search for and recovery of oil in all but the best locations, one might have expected the special problems faced by drillers for oil in deep water to be something of a dead issue.

However, in the tenth round of UK offshore oil and gas licences announced last month, about a dozen blocks are being offered in deep water frontier areas. The Government takes the view that this essential work should go ahead in these areas to ensure that enough new production is brought on stream to replace existing fields as they run down in the 1990s.

While Mr Buchanan-Smith, Energy Minister, concedes that the attractions of deep sea drilling have been damaged by the fall in oil prices, he expects nevertheless, that oil companies will take a long-term view and put in bids for this acreage.

Events have changed radically since the ninth round, in which 44 deepwater frontier blocks to the west of Shetlands were among the most sought after of the blocks on offer.

At about the same time lease sales of deepwater acreage in the Gulf of Mexico brought a similarly enthusiastic response, and Shell and Sohio paid about $4.2m for four blocks where the water was more than 2,000 metres deep.

Since then the fall in the oil price from $30 to $10 played havoc with operators' sums. On the ninth round acreage in the North Sea companies are dragging their feet, and while siesmic work is still going ahead, plans to drill there are being pushed back. In the Gulf of Mexico, Shell is pressing ahead with its plans, although many of the other wells may never be drilled.

The only part of the world in which drilling in deep waters seems to have been unaffected by the fall in oil prices is off the coast of Brazil, where the state-owned Petrobras in its need for hard currency continues to search for oil.

However, on any but the most pessimistic long-term view of energy prices, deep water development is unlikely to be abandoned altogether. The world's deepwater slope areas may be half as much again as the total extent of the shelf areas.

According to some industry estimates the total amount of oil recoverable offshore is about 800bn barrels of which more than a tenth is in deep water.

Drilling for oil in deep waters in expensive, uncertain and involves a whole series of technical problems for the explorer. However in the past ten years great technological strides have been made, and the record for the deepest well drilled is continually being broken.

The latest record holder is Chevron, which has recently drilled off the coast of Spain to a depth of more than 3,000 metres.

What counts as deep water is changing all the time; whereas in the early 1970s the deepest that any company had ventured was 300m now depths of less than 400m are not generally classified as deep water at all.

The deeper the water the more difficult the environment for drilling. In the North Sea conditions are particularly poor, and there are only three months of the year—between May and July—when there is any reasonable chance that the weather will be good enough to drill.

Securing vessels in the correct position to drill is a problem in deep waters. The ordinary chain mooring systems of a semi-submersible rig may prove too heavy, causing too much sideways movement of the rig. By using a lighter combination of wire and chain the mooring becomes more effective.

Currently there are two North Sea rigs fitted with combination mooring, each capable of drilling in depths up to 600 metres.

For deeper waters still, the drilling vessel can be held in place by propellors operated by computers which respond to reflectors placed in the wellhead. This so-called "dynamic positioning" has been used for some time in drillships, and has more recently been applied to semi-submersible rigs, which are more stable than drill ships in rough waters.

A second major problem with drilling in deep water is the drilling riser, which runs between the rig and the blow-out preventor on the sea bed.

In deep water the riser is subjected to greater forces than in shallow depths, and to prevent it from buckling it needs to be supported at the top and bottom joints. Effective methods of support have been devised recently using syntactic foam and an air can flotation system.

The stock of vessels suitable for drilling in deep waters has been hit by the recession among the offshore contractors. About two years ago when excitement over deep sea drilling was high there was a rush of orders for deep sea rigs, nearly all of which have now been either postponed or cancelled. According to Mr Cliff Simpson, general manager of drilling at BP, lack of equipment may act as a serious brake on deep sea drilling when exploration activity starts to pick up.

While the technology for drilling in deep waters is now proven, systems for getting the oil out have yet to be tested. Millions of dollars have been spent on research by oil companies and contractors to devise ways of producing oil in deep waters.

The conventional platforms used in shallow waters employing jackets or gravity structures are not suitable in deeper waters, and most of the proposed schemes consist of an unmanned platform below sea level.

The best tested sub-sea engineering project to date is Shell's Underwater Manifold Centre (UMC), which has been operating successfully for two years. The UMC is now installed in just 500 feet of water in the Cormorant field in the North Sea, although could be adapted for use in deeper waters.

It consists of a base structure through which template wells are drilled, with a tie-in point for satellite wells. The UMC collects oil from the wells and delivers it to the surface.

It also maintains the valves and other controls on the manifold using a remote maintenance vehicle, which operates without the help of divers.

Because of the expense and the technological uncertainty of producing oil in deep water, the size of the find has to be very much larger than shallow water discoveries to make development worth while. A recent survey by Standard Oil shows that operators need reserves of three to four times the size to justify the exploration and development costs of drilling in 2,000 metres of water compared with 300 metres.

At present oil prices no find is likely to be large enough to justify the expense. But the terms on most of the leases are long — about 10 years. Long enough to admit the possibility of a dramatic rise in oil prices as well as such advances in technology to make the discovery and extraction of oil from deep waters cheaper and easier.

Lucy Kellaway

Wytch Field

£265m plan to boost output

NEARLY 70 years ago, residents in Kent must have been dismayed to hear that coal-mining, a notoriously "dirty" industry, was to start in the heart of their county, the legendary "garden of England."

Today, nobody questions the presence of Kent's three surviving coal mines and most people outside the county learn with surprise that far from being industrial relics they are England's newest coalfield. When they do arouse concern, the issue is not their presence but the fear that they might have to be closed down.

Three generations later, the intrusion of another "dirty" industry into another beautiful corner of England suggests strong parallels with the first coalmining in Kent.

This is the development of the Wytch Farm oilfield, in Poole Harbour, Dorset, and the Isle of Purbeck peninsula flanking its western shores.

As Western Europe's largest onshore field, with more than 200m barrels of reserves, the Wytch Farm field is a national resource too valuable to ignore. But in the 1980s the power and sensitivity of public opinion mean that environmental considerations dominate every stage of its development.

Discovered in 1974, the field has been operating successfully since 1979. But five months ago, BP, as operator for a group of six companies, applied to Dorset County Council for permission to spend £265m on raising its output from a modest 5,500 barrels a day to 60,000 b/d, together with an increased amount of associated gas.

The development, for which 16 separate planning applications have been made, will require the drilling of about 50 new wells, bringing the total number to about 75. A new well site is needed on Furzey Island but otherwise the new wells would be drilled on existing sites.

A network of additional buried pipelines would link the gathering station with the well sites, sea water pumping station and rail terminal.

BP calls its planning application "the culmination of an unprecedented exercise in local and national consultation." Since announcing the development proposals two years ago, BP has held more than 200 meetings and discussions with local councils, statutory bodies, environmental groups, local community parties and private individuals. As a result, some substantial changes were made to the original plan.

Another major issue to be decided is the route and method of removing the oil from the production areas. The favoured option is to pump it by a buried 16-inch diameter pipeline to existing tanker facilities around Southampton Water.

Part of the pipeline route crosses the southern fringes of the New Forest and BP is currently discussing every yard of it with local landowners, residents and officials. Three alternative options are pipelines to Portland Harbour or to Poole Harbour, or by rail to Southampton Water.

So far, the Dorset authorities and public opinion seem cautiously satisfied that Wytch Farm's advantages outweigh the disadvantages. Their reaction is likely to be further mellowed by a study commissioned by BP suggesting that the field's expansion could create 1,400 jobs in Dorset and 11,500 nationally.

The determination of the Wytch Farm consortium to press on with the expansion scheme is particularly significant at a time when collapsing oil prices have stymied some new offshore developments.

This is because although its production costs cannot compete in cheapness with those of the major Middle East oil producers, they compare well with those of the biggest fields in the North Sea. For capital costs of some £300m, the Wytch Farm developers hope to exploit reserves of 200m to 300m barrels. To develop the 85m barrels in the North Sea Eider Field, on the other had would cost £620m.

Wood MacKenzie, the Edinburg oil industry analysts, estimate that Wytch Farm's economics look healthy at $15 a barrel, which they assume to be the average world oil price this year and next, and that it would be viable even if oil remained at about $9 a barrel.

The problem, therefore — particularly for some of BP's smaller partners—is how to finance the development at a time of falling revenue from mature, producing fields in the North Sea.

If this problem becomes acute it could be reflected in changes in the ranks of the companies involved in Wytch Field—but it is not likely to affect the develoment plan itself.

Maurice Samuelson

China and world territories

Doubt on China's offshore prospects

THE INITIAL euphoria over China's offshore prospects has now been transformed into a profound disappointment. Since the second round of bidding closed last August, only seven new contracts have been signed, compared with 19 after the first round in 1982.

Drilling of over 40 wildcats in the South China Seas has yielded nine oil or gas discoveries. In the Yellow Sea, five wells have registered oil or gas shows, but where some estimate of reserves has been made, no field can be regarded as commercial at present prices.

The situation led one senior executive to comment: "The oil industry collectively has not worked up any enthusiasm for China."

But is there any justification in writing off such a huge area on the basis of only some 40 wells? A similar philosophy applied to an area with comparable drilling density in the North Sea or anywhere else in the world is regarded as sacrilige by many oil industry thinkers. But the consensus remains yes, even though Chinese officials have been quoted as saying that the companies expected too much too quickly.

According to many who have worked in Chinese oil exploration, structures in the South China Sea are larger and less complex than in the North Sea, sediments are very young, and there appears to be insufficient source rock — the strata which actually generate hydrocarbons.

It is doubtful whether Arco's Yacheng gas discovery may be developed commercially. According to some sources, the project is under way in the hope that it will be justified through future discoveries in the area.

What oil has been found is extremely waxy, making production difficult. Its low gas content makes the situation even worse. The ACT group's (Agip, Chevron and Texaco) Huizhou oil discovery, thought to hold reserves of 80m barrels, is also reported to be uncommercial at current prices.

Any oil accumulations which may be found in the future are expected to be less than 100m barrels. Companies say that all the large structures—"the golden babies" have been drilled.

China has taken some steps to liberalise its fiscal terms, through eliminating the 12.5 per cent royalty on production less than 20,000 b/d, and is thinking of ways of reducing the state take in any find, in order to improve the economics for small to medium-sized fields.

China has also opened up 10 provinces south of the Yangtze river, and Xinjiang, for onshore exploration in co-operation with foreign companies. According to Ministry of Petroleum statistics, the total area available is 1.8m square kilometres.

But are the companies descending in droves to exploit this immense potential? The answer is no. Only one American independent is believed to be in the final stages of negotiating for acreage in the Sanshui Basin, in Guangdong Province.

Operations in onshore China would have to be started up from scratch. The huge initial investment required is nowadays regarded as almost the exclusive preserve of large companies. Even they are having second thoughts about taking such risks under present market condiions.

But privately, some company representatives have been quite blunt about the difficulties they have faced in even obtaining sufficient information to make some assessments of prospects in onshore China.

They complain the national oil company has been withholding selected information from certain companies, and that the Ministry of Petroleum and Ministry of Geology are competing against one another.

Onshore production is currently in the hands of autonomous provincial oil companies. According to the same industry sources, these companies, quite understandably, have no desire to lose their autonomy, either to a central Ministry, or to foreign companies.

So they too are selective in what they show to the companies, and compete against one another, as well as against the Ministries.

As the country's oil and gas production targets will be difficult to meet as the larger fields are depleted and medium-term exploration prospects are grim, China's sentiments to Opec over production cuts appear to be an expression of Hobson's Choice.

With $10 oil, many experts in the oil industry are united on their prime choice of exploration acreage—Saudi Arabia and Iraq—where there are still considerable reserves to be discovered. But as this is a political impossibility, they are forced to take a much inferior second choice.

Egypt remains probably the most popular country for exploration in the short and medium-term. It is technically attractive at oil prices of U$10 a barrel, the companies say, but add perhaps predictably that Egypt is very bureaucratic and not as flexible as it should be in negotiating contract terms.

Nevertheless, Egypt is seeking to change the terms it offers to companies since, on some projects, current prices do not guarantee adequate recovery of costs let alone a profit. Conoco is currently renegotiating its contract with EGPC (Egyptian General Petroleum Corporation) over the Geisum field it bought from Mobil.

Under the present terms, a 5,000-7,000 b/d production rate over its probable 10-year life could not, at present prices, cover even operating costs.

Recent exploration successes in the Western Desert and Northern Sinai have opened up new exploration areas. Nevertheless, any short-term production cutbacks, due to marketing difficulties or Opec pressure, on the part of the state oil company has also to be matched by foreign production sharing partners.

However, the 1980s have produced only two real exploration successes, North Yemen and Colombia.

North Yemen's new licensing round later this year is bound to attract considerable attention, although some companies have expressed concern about operating costs in the country. But Colombia has become an unwitting victim of its own success.

Colombia became self-sufficient in oil at the very time the market collapsed. However, *a far more serious hindrance to* industry confidence has been the flirtation with nationalistic policies by the now-defunct Betancur administration.

The transfer of operatorship of all oil pipelines from associate companies to the state oil concern Ecopetrol, angered the foreign companies, as did the change in the government's reference oil price. But government proposals to drop foreign remittance taxes and to modify depreciation rules have provoked the most vociferous outcry, and some doubts in the higher echelons of Ecopetrol.

Some hopes have been expressed that when the new Barco government takes office in August, there will be an attempt to rescind the fiscal changes.

Changes in contract terms have also caused considerable confusion to companies operating in Indonesia. Over the years, Indonesian conditions have become less and less attractive. In theory, the new law came into force in January 1984. But tax liabilities were calculated at the official price, whereas oil was sold at low spot prices.

Prices are now based on a *basket of crudes, and the* government is confident of signing six more contracts this year. It also intends to offer more areas for bidding, including onshore East and West Madura and offshore East Kalimantan.

Discoveries in the Paris Basin focussed a lot of attention on onshore France. The relatively low operating costs, similar to UK onshore, should maintain activity at a reasonable level throughout the low oil price period. Nevertheless, Geneva-based Petroconsultants suggest that exploration peaked in 1985. the future outlook, they say, is constrained as much by the maturity and lack of significant new prospects, as by the oil price.

Ten-dollar oil makes exploration in West Africa uncommercial. The results of Gabon's licensing round have still not been made public. Only Angola is reported as adopting a "pragmatic attitude." The state oil company Sonangol is promising flexibility on terms and inviting comments from interested companies.

Elsewhere in the Middle East, companies operating in *Turkey are still confidently* maintaining that even a price of US$9 a barrel keeps some fields commercial—if they are situated close to an existing pipeline.

Syria and Jordan are willing to discuss terms with companies. Discovery of oil at Thayyem [by] Shell Pecten, and of gas at As Shaer by Marathon, has pe[r]suaded many companies to tre[ad] the road to Damascus in rece[nt] years.

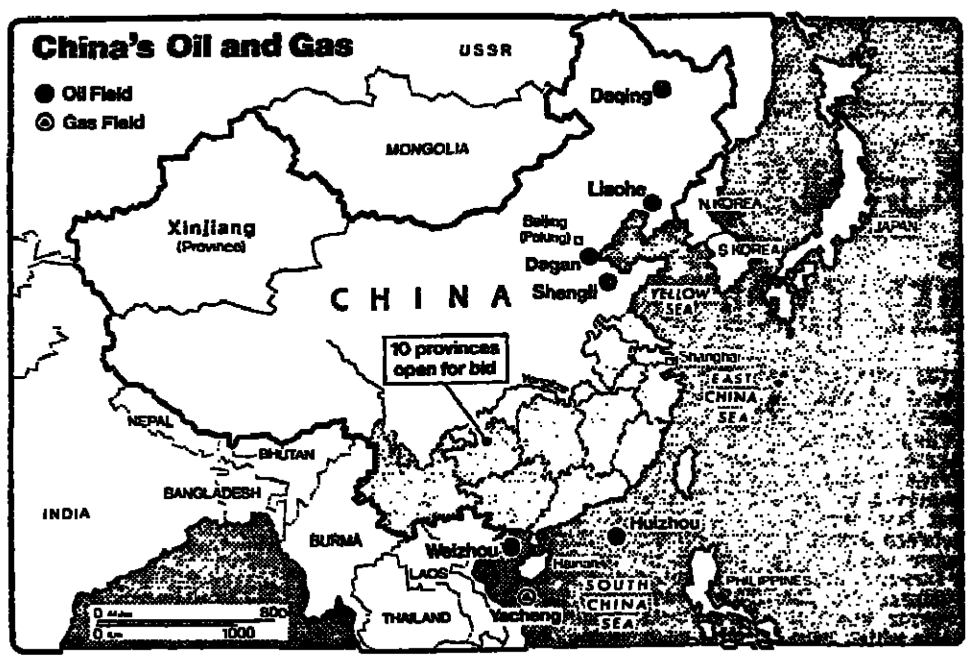
The future does not appear bright for Latin America. Oth[er] than Colombia, Ecuador see[ms] to be the only attractive pla[ce] to explore. The recent biddi[ng] round in Ecuador had what w[as] described as "good response" but the country is under pr[es]sure from its OPEC partners [to] cut production.

In Brazil and Argentina, t[he] best acreage is said to have be[en] taken up by the State oil co[m]panies. In Argentina par[ti]cularly, the last two licensi[ng] attempts have been describ[ed] as complete failures, even wi[th] the promise of a more libe[ral] approach by Mr Jorge Lape[r] the Energy Secretary.

One company official summ[ed] up the situation as "not wo[rth] the trouble."

Curtailment of oil explo[ra]tion and production is bound [to] have a detrimental effect on t[he] development of many Thi[rd] World countries.

Maria Kielm[ann]



UK independents

Big fall in value

THE BRITISH independent oil sector is in a mess and knows it. At first sight, of course, a quick survey of the oil and gas companies quoted in sterling on the UK Stock Exchange, does not look too bad. Market capitalisation for this sector is now about £23.3bn, while a year ago the equivalent figure was £22.2bn.

Then the doubts creep in. A five per cent increase does not look quite so good when defined in the context of 78 per cent increase in the FT All-share Index in the same period. And naturally it does not quite fit to include Shell and BP in an examination of the independent sector.

Now Burmah has got out of North Sea oil exploration and production, its face does not fit either. Take those companies out and the difference between the market capitalisation of the British independent exploration and production (E&P) sector now and one year ago is the difference between £3.9bn and £4.6bn. Wherever the market bulls were putting their money, it was not into North Sea oil. And the figures probably underestimate the damage by a substantial margin.

A few familiar names tell the story. Last July, Lasmo was worth £56m now it is capitalised stock market fell it was worth £152m. Sovereign used to be worth £58m now it is capitalised at £10m. Tricentrol could count on capitalisation of £193m, twelve months ago; now its worth £53m. Pict is now worth a fifth of what it was, while Carless Capel is worth a half. Even Enterprise, with good financial management, is capitalised at £218m, 60 per cent of what it was.

The reason for this disastrous state of affairs is too obvious to bear repeating. It took six months for Saudi Arabia's netback dealing in July 1985 to catch up with the oil market, but when it did it savaged North Sea oil company cashflow. The difference between North Sea crude prices fluctuating between $9 and $12 a barrel and $27 and $28 a barrel says it all.

Downstream refining assets provided some protection unless, like Ultramar's Canadian operation, inventories were higher than normal at the end of the winter season.

But the UK independents are not noted for strength in the downstream area. At the time of their highest growth, European refinery capacity was in surplus and integration out of fashion.

Everything was not rosy for the UK E&P companies before the oil price collapse. In a time of scarcity E&P shares outperformed the majors because they did not have the drag of unprofitable downstream assets on the balance sheet. In a time of glut, the name of the game was the balance between offsetting production taxation against development and exploration expenditure.

To achieve the right profile of fields producing and acreage to develop was crucial. This was what set off a great deal of small company merger activity in mid-1985, with often embarrassingly high share prices. But since the percentage stakes in potential fields was generally small, the companies were often at the mercy of the majors over the development timing, and the majors were not in the business of helping the small stake holders' tax profile.

In a time of price collapse these problems have become compounded and the name of the game has become survival. Back in April, Michael Devereux's Institute of Fiscal Studies tax model suggested that the net present value of future cashflows of some 15 out of 35 North Sea producing oil fields would be negative at $9 a barrel. With current Brent prices at $10 a barrel translating into sterling at current rates to £6.60 a barrel, it is probably fair to add a further eight to this list.

The consequence, put bluntly, is that it is no longer possible to regard some North Sea producing assets as a source of revenue; rather the reverse.

The optimists' solution is naturally to assume that what goes down must surely come up again in a few years' time and carry on regardless. Exploration costs, and development costs are coming down rapidly and, in theory, asset sales, defensive mergers and loans can keep the wolf from the door. Sales of gas to the British Gas Corporation will keep revenue flowing and some development going until the oil price goes above $18 a barrel again.

There are a multitude of problems with this scenario however. First and foremost, it is by no means clear that the oil price will rise towards the $18 a barrel necessary to achieve a more positive cashflow from the North Sea. A sustained period of oil prices in the region of $12 a barrel for three years could radically alter the attitude of the banks towards supporting the industry. Some companies, notably Tricentrol, *already have high levels of debt,* generated in anticipation of future projects.

Given that existing North Sea production is likely to decline over the next five years, neither banks nor investors can seriously expect a change of fortune unless the development drive continues. Britoil, although it has strong conservative financial management, provides one example here. It has a mature field production profile and thus needs money for development.

Yet new development now requires very careful appraisal to get close to positive cashflow at $16 a barrel. Even this will require substantial use of engineering innovation and experiments often require more, rather than less, money in the initial period.

As for the smaller E & P companies, new oil field development is at the mercy of the majors and their priorities. Gas development is often seen as the saviour but the acceptable level of prices is tight here also. The British Gas Corporation is only too well aware that its industrial market is under serious threat from gasoil and heavy fuel oil and wants reductions in contract prices.

At 17p per therm, many plans for offshore southern basin gas do not look attractive. New contracts in February were at 22p per therm. As one market analyst put it "you cannot invest in North Sea oil companies on the basis of North Sea gas sales."

Selling assets to keep afloat is, in the words of another analyst, "like selling the front of the house to pay for rebuilding the back wall." And it is a buyer's market. The aim is to reduce debt levels to make bids attractive. But the majors do not have any immediate necessity for picking up small stake holdings in exploration acreage unless it fits very well into the current pattern of their requirements.

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Gatt system in peril

THE OUTLOOK for the next round of talks on liberalising world trade, due to be launched in September under the General Agreement on Tariffs and Trade (Gatt), has not been improved by the events of the last few days. The agreement between Japan and the US on semiconductor trade extends to a fast-growing, high technology business the damaging trends towards bilateral and sectoral deals which have hitherto been largely confined to older industries such as textiles and steel. The Multi Fibre Arrangement, which is contrary to Gatt principles even though negotiated under Gatt auspices, has been extended to cover a wider range of products.

These events underline once again the growing lack of respect for Gatt rules. The central issue in the coming round is whether the move to "managed trade" is accepted as permanent and irreversible, or whether a consensus can be rebuilt in favour of a competitive market economy in which industries adjust to shifts in comparative advantage. A great deal will depend on what leadership is forthcoming from those countries, particularly the US, West Germany and the UK, whose governments are most publicly committed to market-based economic policies.

Key articles

It is true that after nearly 40 years there is a need to update the Gatt system and its rules which were in some respects too idealistic. There is dissatisfaction with several key articles, including those dealing with anti-dumping, subsidies, customs unions and, most important of all, the provisions for emergency protection against sudden surges of imports. But there is a very strong economic and political case for reasserting the Gatt principle of non-discrimination — that trade concessions agreed in a bilateral negotiation should be extended on a most favoured nation basis to all Gatt member countries.

This principle, together with transparency and reliance on the tariff as the permissible instrument of protection (because it was consistent with the price mechanism), was designed by the architects of Gatt to foster a multilateral trading system in which international obligations protected governments against domestic pressures.

Gatt provided escape clauses, but most of the discriminatory measures which have been introduced in the 1970s and 1980s—the voluntary export restraints and other non-tariff barriers directed against particular countries—have been negotiated outside Gatt and are inconsistent with it. The Gatt secretariat estimates that there are some 120 arrangements of this kind now in force excluding the MFA. Recourse to non-Gatt devices is too often the instinctive response to trade problems. The discriminatory approach, designed to avoid or defer the pain of adjustment, has become more deeply entrenched, with vested interests on both sides. Many developing countries prefer the rigidity of the MFA, in which they are guaranteed market shares, to a free for all in which the most efficient suppliers, such as Hong Kong, would gain more of the business.

Vital area

How to bring selective discrimination within Gatt disciplines has to be tackled in the coming round. There are, of course, many other topics to be considered and the agenda is not yet finalised. There are arguments over the form in which agricultural trade will be discussed. Some developing countries are fiercely resisting the inclusion of new subjects—trade in services, rules governing foreign direct investment and intellectual property. There are anxieties in the same quarter about possible threats to the preferential arrangements which they enjoy in certain markets. There are proposals for strengthening compliance mechanisms and dispute settlement procedures within Gatt.

As one observer has put it: "The Gatt lacks even the modest powers of compliance of most international organisations and depends to an unusual degree on the voluntary co-operation of members for the observance of rules."

A balance will have to be struck between the danger of overloading the agenda and the need for enough negotiable issues to provide scope for trade-offs. But if each country approaches the talks with the aim of gaining advantages for its strong industries and protecting its weak ones, there is no prospect of success.

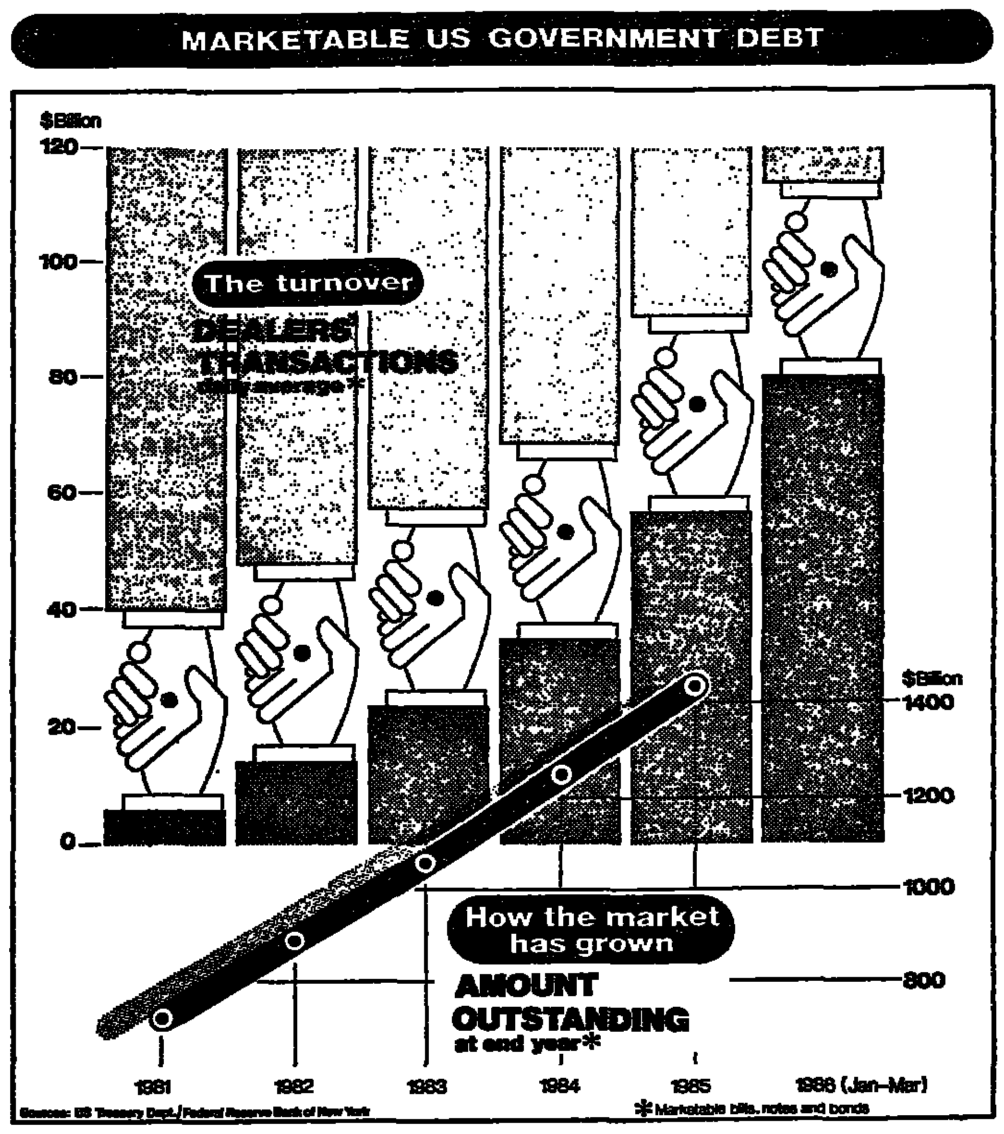
Above all the European Community and the US have to decide what restraints they are prepared to accept on their freedom to take selective action against particular suppliers—usually the low cost ones. If they go in the other direction and seek to legitimise systematic discrimination against the efficient producers, the cost to the world economy and to their own citizens will be high.

In the last year or so international economic collaboration has been strengthened, especially with a change of attitude on the part of the Reagan Administration and the attempt to correct severe currency misalignments which are themselves a source of protectionist pressure. The new Gatt round is a chance to extend this spirit into the vital area of trade and to reconstruct in an up-to-date form the norms and procedures of a multilateral trading system.

US TREASURY BONDS

The $100bn a day market

By David Lascelles, Banking Correspondent



IF President Ronald Reagan's economic policies have produced the largest budget deficits the world has ever seen, they have also created the world's greatest financial market: in US treasury bonds.

This mountain of paper is now so high that it already exceeds the government bond markets of all other countries combined, and is about to overtake the capitalisation of the entire New York Stock Exchange. With its annual growth rate of about $200bn, it is expected to reach $1,650bn by the end of this year.

But worrying though the immensity of this debt may be for Washington and other economic policymakers, the US treasury bond market has acquired a stature all of its own in the world financial services industry. Its dominance is unquestioned.

The price of a US treasury bond—probably the soundest and most widely traded investment there is—now determines the cost of capital virtually everywhere around the globe because of the power of the dollar: In London and Tokyo dealers already trade billions of dollars worth of US treasuries in their local markets every day while New York is asleep. Largely because of this, many of the world's leading foreign banks and securities firms now want to get into the primary market on Wall Street, notably the Japanese who are attacking it with their customary thoroughness and threatening to turn it into the next great battleground in US-Japanese commercial relations.

In London, the US treasury bond market has a special significance because it is the model for the restyled gilt-edged market which is being introduced as part of the "Big Bang" reform of the City in October.

"If you are going to be in the fixed interest markets, then the US treasury market is absolutely fundamental to it," said Mr Piers Brooke, managing director of Lloyds Merchant Bank, whose UK parent, Lloyds Bank, has begun to trade US treasuries as part of its worldwide capital markets business.

This sudden wave of attention has had a mixed reception on Wall Street where dealers welcome any demand for their wares, but are apprehensive about the impact of foreign entrants on a market which, for all its size, is finely tuned and has well-established trading practices. Dr Henry Kaufman, the Salomon Brothers economist who is one of the leading experts on the US debt markets, says that internationalisation is healthy. But "foreign participation could change the market. You don't know the placing power of the new firms, or their trading mentality or their trading techniques."

The US market is centred on a group of primary dealers—currently 35—who are officially recognised by the Federal Reserve Bank of New York. Most of them are large commercial and investment banks. They have the right to trade directly with the Fed and bid for new treasury bonds at the monthly auctions. But they also have the obligation to buy and sell bonds to investors at all times, good and bad.

Since the turnover in the market is enormous and rapid—$100bn a day is not unusual—dealing profits for a successful house can be substantial. But the market is also, in the words of a foreign banker on Wall Street, "the world's greatest opportunity to lose money." A change of only a quarter per cent in interest rates can mean millions of dollars to a house with a big position in the notoriously volatile long end of the market.

And though the market is so liquid that it can absorb a $100m trade without batting an eyelid, it can be dangerously unpredictable. A rare "squeeze" during May—blamed on the now much-feared Japanese—caused losses which have been put as high as $500m, and contributed to the poor results just announced by many Wall Street houses for the second quarter of this year.

Because of this, the Fed keeps close tabs on its primary dealers: they have to go through a lengthy probation period and, when accepted, report daily on their dealings and abide by rules on capital. A house must command 0.75 per cent of daily turnover (excluding trades among dealers) to qualify.

The rules have been tightened up in recent years after the dramatic collapse of a number of fringe trading houses like Drysdale and ESM which engaged in questionable practices in the early 1980s and put some primary dealers at risk. But it is still essentially an unregulated business because anyone can deal in the secondary market. However, Congress has threatened to bring it under the control of the Securities and Exchange Commission.

The value of primary dealer status is not entirely reckoned in dollars and cents. Most dealers say the margins on customer business are too slim to be attractive (they can be as little as 1/64th of a point), which obliges them to seek profits by taking large positions on their own books and hoping for a favourable move in the market.

But the real benefits are less tangible. A certain prestige comes with recognition, though not, the Fed is careful to say, any promise of a bail-out in times of trouble. There is also an advantage to having a grandstand view of trading activity, and being in constant contact with the Fed as it implements monetary policy through the treasury bond market. The primary dealers get a few seconds' head start on the rest of the market when the Fed is buying or selling bonds. It is not much. But as one dealer puts it: "All this gives you a leg-up, which is what it is all about."

Recognition also entitles dealers to see the price screens of the six Treasury market brokers who handle about half the market volume. The houses deal with each other "blind" through the brokers, not knowing who the counterparty is, other than that he has the necessary standing. They also know that the Fed stands ready to ease any blockages in the market, as it did last November with a $24bn loan when a computer breakdown brought the settlement system grinding to a halt.

Not that all the recognised dealers are large. They range from Salomon Brothers, widely accepted as the leading government bond dealer, which trades up to $10bn a day from a cavernous dealing room packed with flickering green screens, to Aubrey G. Lanston, a small, privately-owned house with only a dozen traders in a bare white-painted room beside the Stock Exchange. But the common traits are super-active dealers with the stamina for long trading days and long evenings of entertaining clients, an obsession with the market's tiniest movements, and a time horizon where 30 days is long-term.

Growing foreign interest in the market has produced a lengthening list of candidates for primary dealership status. At the beginning of this year only one foreign institution, Kleinwort Benson, the UK merchant bank, had taken steps to become a direct member of the market by buying an existing dealer, ACLI Government Securities (though three other banks, Midland Bank, Hongkong and Shanghai Bank and Bank of Montreal, owned stakes in US banks who were primary dealers).

But since then Westpac, Australia's largest bank, has bought a small dealer, William E. Pollock Inc, and the Midland has become a member in its own right. At least eight other foreign institutions are on the candidate list: Lloyds Bank, Union Bank of Switzerland, S. G. Warburg, Schroders (through Wertheim, its 50 per cent owned Wall Street affiliate), and the four major Japanese securities houses, Nomura, Daiwa, Nikko and Yamaichi. Several other banks, such as Barclays and NatWest, have indicated their interest.

The quick route into the market is by acquisition, a course favoured by Barclays among others. (The chairman of Barclays' investment bank is Sir Martin Jacomb who negotiated the purchase of ACLI while he was vice-chairman of Kleinworts.) But there are only four independent dealers left, and they are either closely held like Aubrey Lanston, or costly prospects, like the highly regarded Discount Corporation which is a publicly quoted $200m company.

This means most aspirants are having to take the slower though cheaper route of building up their own operations by poaching seasoned traders from the established houses. This has already caused salaries to shoot up, adding to the sense of threat on Wall Street.

Including the handful of US houses who also want to become members, the total number of primary dealers could reach 50 within the next year or two, which suggests that the level of competition will become even more intense. Each of the 15 aspiring members will have to wrest its 0.75 per cent from an established house, and even though volume is growing year by year, the likes of Merrill Lynch and Citibank are not going to yield 12 per cent of the market that readily.

The four Japanese houses have already shown their determination to build up their qualifying volume as soon as possible with aggressive trading techniques. Accusations of unfair practices have begun to fly, particularly since the May bond squeeze when Japanese investors were alleged to have cornered the long bond market just as most US houses needed large stocks of bonds to cover short positions. There have even been dark hints that the Japanese central bank tips off the Japanese houses about forthcoming currency and interest rate interventions to which it is privy from the Fed.

All these accusations, are denied, of course, by the Japanese themselves.

"These suggestions are groundless," said Mr Akira Shimizu, president of Nomura's New York subsidiary whose capital is in the process of being increased from $60m to $100m. "This operation has been very profitable." He claims Nomura even brought back $500m of long bonds to ease the squeeze.

While Nomura may not be the most welcome new arrival, it is rapidly becoming the major foreign force in the market. Backed by the huge demand for US treasury bonds from Japanese investors back home, it is already turning over $2bn-worth a day and should, if all goes to plan, receive official recognition by the end of the year, which would make it the first foreign house to achieve that status in its own right.

But resistance to the Japanese is building up on Wall Street. Mr Robert Linton, the chairman of Drexel Burnham Lambert, one of the top five US dealers, has stated publicly that he does not think the Japanese houses should be allowed in on the grounds that US houses do not have reciprocal access to the Japanese markets. Privately, Americans express more hostile opinions. "We feel they do not have high enough standards to be admitted," said the chairman of one US house.

But whether Wall Street's concern will sway official attitudes is doubtful. For one thing, the Fed does not consider that trading styles and reciprocity should weigh decisively in a recognition decision, provided the house in question meets the published criteria. More to the point, though, the US Treasury cannot afford to keep the Japanese out because they now buy a sizable proportion of all the debt it issues. A recent Fed survey showed that foreigners account for 17 per cent of primary dealers' customer business in long treasury bonds.

The Japanese have also shrewdly hired senior officials from the Fed and the Treasury to join their managements and aid their lobbying efforts. These include Mr Stephen Axilrod, the top Fed official in charge of monetary policy who joined Nikko last month and Mr Scott Pardee, formerly of the New York Fed, who is now with Yamaichi.

The mounting competition for US Treasury business does not bode well for the proposed London gilt-edged market which is reckoned to be over-crowded before it has even started. It will have a similar system of designated primary dealers linked to the Bank of England who will be responsible for maintaining markets in government stock.

But while the US market has 35 participants, London will have 27 of them chasing less than one-fifth of the volume. London will also start without the Japanese houses which did not qualify in time to join the market launch and will have to wait two years until the Bank of England re-opens the list of primary dealers. So even if there is no immediate bloodbath in the City, as some people fear, the threat looms of a new wave of competition later in the decade.

The Mersey sound

LOCAL LABOUR Party politics are often stormy, but the resignation of Mr Robert Kilroy-Silk from the safe Labour Merseyside seat of Knowsley North threatens a small hurricane that could have effects on the party throughout the country. Just as Mr Neil Kinnock seemed to be succeeding in projecting an image of sensible moderation in time for the next general election, the internal divisions are going to surface again, even if the true story of local events is more complex than meets the outside eye.

Mr Kinnock must have been hoping that by the next party conference — possibly the last before the election — Labour would be showing itself as fit for government. Now Mr Kilroy-Silk has forced an autumn by-election in a region that is rife with factionalism, and has done so at a time when old sores are still running. The Liverpool councillors, who have been expelled, are to appeal against their disqualifications to the House of Lords and hope still to be in office at conference time. Many rank and file Labour supporters are helping to pay their legal costs, and the process of expulsions is not yet complete.

Common cause

Mr Kinnock's problem is how to claim that Labour is no longer in disarray when the evidence from Merseyside suggests that it still is. One option would be to dismiss the area as aberrant in an otherwise united party. But would he and his front bench then be able to go to Knowsley North and support the party's candidate? They might be if the party's national headquarters at Walworth Road could impose a "suitable" person. But that will be very difficult. Support from Walworth Road would be probably the kiss of death for any Knowsley North hopeful rash enough to claim it.

Much of the trouble has arisen because Labour in London has failed to understand the nature of its membership and support on Merseyside, where organisational discipline depends on winning hearts and minds to a common cause. That is the only way to unite factions that range from a Catholic mafia to a neo-Marxist caucus. Mr Michael Heseltine, when he was the Tory Environment Secretary, seems to have understood this better than Mr Kinnock.

There is common cause at present: attacked by the Government, the law, the local Liberal Party and Labour's leadership, they stand back-to-back in attempted defiance of the outside world. However misled the councillors may have been, the bulk of them went over the top for Labour and now find themselves abandoned in no-man's-land, facing severe penalties. They believe that good people are being sacrificed to help rid the party of the Militant Tendency. They are determined to teach Mr Kinnock a lesson. Some of them hope that he will lose the general election.

The last Labour Prime Minister to reach Downing Street via a general election was Harold Wilson. He was a Merseyside MP for nearly 40 years and learnt many of his political skills from the area. He did not have quite the present Merseyside anarchy to deal with but he did succeed in persuading most of the party that power was preferable to socialist fundamentalism. It is ironic that Kirkby, the heart of what is now Knowsley North, was once part of his constituency.

The task for Mr Kinnock is to find a way of using the by-election to heal the rift between the bulk of the national party and the party on Merseyside, while still repudiating the Militants. It will be a formidable achievement if he pulls it off and a setback if he does not. The task cannot be ducked.

Texaco appeals against the clock

It could be a whole nail-biting year before the US oil major Texaco knows whether the record damages of $11.1bn awarded against it in the Texaco v Pennzoil case will be upheld, reduced, or set aside.

Last week's hearing in Houston ended with the appeal court judges of the state of Texas simply leaving the court without a word.

This cliff-hanger, embodying the differing styles of northern states and southern states justice in the US, continues to provide better court room drama than Hollywood ever offered.

Justice James F. Warren started the proceedings by warning from the bench that there was to be no cheering, booing, stamping of feet, or anything else to detract from "what these fine lawyers are going to say."

Participants in the hearing were allotted coloured cards entitling them to sit in various sections of the 750-seat law school auditorium. Before long holders were swapping with each other for what they considered more favourable colours.

Lawyers were told that the court clerk would hold up a card three minutes before the end of their allotted speaking time. And that any overrun would come off their buddies' time.

All at the hearing were conscious that interest on the damages award continues to accumulate at the rate of $125,000 an hour.

Gold claim

Remembering, as I do, the outright aggression with which normally placid rose-growers shaped up to one another in the 1950s in their efforts to be the first to produce a blue rose I hope this item does not start another flower war.

Thompson and Morgan, seed merchant of Ipswich for the horticultural industry, is claiming that it will be the first company to offer Golden Busy Lizzies (sometimes called impatiens) in its new catalogue. Clive Jobbins of that company says Golden Busy Lizzies were thought not to exist until Keith Sangster, Thompson and Morgan's managing director, mounted a search operation in the Far East.

His interpid seedsmen were dispatched to New Guinea where they climbed, slipped, and skidded through the mountains at around 7,000 feet.

Eventually they were lucky. They found the flower at the base of a big waterfall, hand pollinated a small quantity, and flew their prize to England for seed production.

Men and Matters

"Have you any idea the trouble it's taken to bring that grapefruit all the way from South Africa?"

DOE stops play

Bringing a touch of the new world to the old world, American bankers in London like to disport themselves innocently on summer evenings by playing softball in Hyde Park.

Together with British, Japanese, and other friends, they run the Euro Market Softball League. For the last eight years some 40 teams from City of London financial institutions have competed—purely for fun—in three leagues meeting on Tuesdays, Wednesdays, and Thursdays, near Knightsbridge Barracks.

Now play has been suspended by the mighty force of a Whitehall decree. The Department of the Environment, responsible for the Royal parks, apparently finds the games environmentally unsound. The DOE says it is looking into the matter.

The players believe the ban stems from the unhappy experience of a passer-by who was bumped on the head by an off-course softball. He seems to have been a sufficient bigwig to have his complaint listened to in Whitehall, and early action was taken.

The league commissioner, Justin Day, is meeting the DOE on August 11 to sort out the matter and hopes that, thereafter, play can be resumed.

The players might consider enrolling the Department of Trade and Industry as their sponsoring ministry to put pressure on the killjoys at DOE. For if the bankers are denied their fun they could lose their appetite for work—and then the Big Bang might only be a whimper.

Splashing out

Whlie publishers these days are searching with increasing desparation for specialist magazine markets, Michael Cohen, aged 26, of Cleveland, Ohio, might fairly be described as being flushed with success.

He is launching the Bathroom Journal. Its target audience is the 50m Americans who are said to enjoy reading in the privacy of the bathroom. He will serve a mix of stories dealing with health and fitness, money, sports, fiction, humour, games and horoscopes.

Cohen says, "We are making sure that everything we write is thought-provoking and unpredictable. Thomas Edison was right when he said the best thinking is done in solitude."

Bathroom Journal will come complete with a "space-saving wall rack." And it is to have a pink cover as extensive research has unearthed the fact that pink is the predominant colour in US bathrooms.

Have I also stumbled on a reason why the FT's edition printed in the US is selling so well? Are many people reading it in the bath?

Bigger hops

With the prospect of flying London-Sydney in 21 hours 15 minutes from October, when British Airways starts its new one-stop (Bangkok) service, old aviation hands have been reminiscing about the early days on the Kangaroo Route.

First established in 1934 it used to take several days including a train ride from Paris to Brindisi, five changes of aircraft, and nearly a score of stops.

It also required the combined forces of three airlines, Imperial Airways, Indian Trans-Continental Airways, and the newly-formed Qantas.

By 1938 the journey could be done in more comfort in the big Empire flying boats. But it still took 9½ days to get to Sydney.

No clues

In a local newspaper report of a policeman's wedding: "Our picture shows the happy couple leaving the church under an archway of truncheons held aloft by ten uninformed police officers."

Observer

BASE LENDING RATES

	%		%
ABN Bank	10	Exeter Trust Ltd	10½
Allied Arab Bank Ltd	10	Financial & Gen. Sec.	10
Allied Dunbar & Co	10	First Nat. Fin. Corp.	11
Allied Irish Bank	10	First Nat. Sec. Ltd	11
American Express Bk.	10	● Robert Fleming & Co.	10
Amro Bank	10	Robert Fraser & Ptrs.	11
Henry Ansbacher	10	Grindlays Bank	‡10
Associates Cap Corp	10	● Guinness Mahon	10
Banco de Bilbao	10	● Hambros Bank	10
Bank Hapoalim	10	Heritable & Gen. Trust	10
Bank Leumi (UK)	10	● Hill Samuel	§10
Bank Credit & Comm.	10	C. Hoare & Co.	10
Bank of Cyprus	10	Hongkong & Shanghai	10
Bank of Ireland	10	Knowsley & Co. Ltd	10½
Bank of India	10	Lloyds Bank	10
Bank of Scotland	10	Mase Westpac Ltd.	10
Banque Belge Ltd	10	Meghraj & Sons Ltd	10
Barclays Bank	10	Midland Bank	10
Benchmark Trust Ltd	10	● Morgan Grenfell	10
Beneficial Trust Ltd	11	Mount Credit Corp. Ltd	10
Berliner Bank AG	10	National Bk. of Kuwait	10
Brit. Bk. of Mid. East	10	National Girobank	10
● Brown Shipley	10	National Westminster	10
CL Bank Nederland	10	Northern Bank Ltd	10
Canada Permanent	10	Norwich Gen. Trust	10
Cayzer Ltd	10	PK Finans. Intl (UK)	10½
Cedar Holdings	11	Provincial Trust Ltd	11
● Charterhouse Bank	10	R. Raphael & Sons	10
Citibank NA	10	Roxburghe Guarantee	11
Citibank Savings	¶10¾	Royal Bank of Scotland	10
City Merchants Bank	10	Royal Trust Co. Canada	10
Clydesdale Bank	10	Standard Chartered	10
Comm. Bk. N. East	10	Trustee Savings Bank	10
Consolidated Credits	10	UDT Mortgage Express	¶10.5
Continental Trust Ltd	10	United Bank of Kuwait	10
Co-operative Bank	*10	United Mizrahi Bank	10
The Cyprus Popular Bk	10	Westpac Banking Corp	10
Duncan Lawrie	10	Whiteaway Laidlaw	10½
E. T. Trust	11	Yorkshire Bank	10
Equatorial Tst Corp. plc	10		

● Members of the Accepting Houses Committee. * 7-day deposits 5.69%. 1-month 6.03%. Top Tier—£25,000+ at 3 months' notice 9.72%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 5.82%. Mortgage 11%.

POVERTY IN SOUTH AFRICA

The not-so-pampered whites

By Bernard Simon in Johannesburg

SHORTLY after dawn each morning, a fleet of Johannesburg municipal trucks picks up 250 men to dig trenches, seed lawns in city parks and tidy municipal warehouses as part of a Government make-work scheme for the unemployed.

Even by South African standards, the workers are paid a pittance — R5 (or $2) a day. The most unusual thing about these labourers however, is that, in a country where menial jobs are done almost exclusively by blacks, the workers who clamber onto the back of the city council lorries each morning are whites.

The readiness of these men and many other unemployed whites throughout South Africa to stoop to what used to be known derisorily as "kaffir work" is a vivid reminder that whites have not been left unscathed by the present deep recession in the economy.

Attention has rightly focused on the high level of unemployment among blacks, and its important role in fanning the violence which has swept much of the country in the past two years. The black jobless rate is estimated at around 20 per cent.

But in the past few months, white poverty and unemployment have become potent political issues. Soup kitchens and food banks are now commonplace in working-class white neighbourhoods. White beggars have appeared on city streets.

The emergence of white unemployment and poverty for the first time in 50 years has become a powerful political weapon for the white-supremacist groups to the right of President P. W. Botha's National Party Government.

And the Nazi-like Afrikaner Weerstandsbeweging (AWB) has played a leading role in organising relief for poor white families.

Mention of economic hardship strikes an emotive chord among Afrikaners. Much of the groundwork for the 1948 victory which brought the ruling National Party to power was laid in the 1920s and early 1930s when the Afrikaners sought to overcome what was known at the time as South Africa's "poor white problem." Rural impoverishment, caused by the Boer War, severe drought and backward farming practices led tens of thousands of Afrikaner farmers to flock to the cities in the first 30 years of this century. Once

there, they competed for unskilled jobs with blacks who were willing to accept much lower wages.

During the same period much of the apartheid system now being slowly dismantled by the Botha Government (is put in place. The aim was to protect unskilled Afrikaner workers against "uncivilised labour."

Memories of the earlier "poor white" problem and its political consequences appear to inhibit the Botha Government's reform moves today.

The push for more white jobs in the 1920s and 1930s spurred protectionist trade policies which helped create much of South Africa's present industrial base.

Over the past two decades, as an expanding economy has brought more blacks into semi-skilled and skilled positions, whites have tended to move higher up the ladder or into jobs where they are unlikely to face competition from other race groups.

This is especially true in the Civil Service and parastatal corporations, by far the *country's biggest employers*, where resistance to black advancement remains strong. For instance, the Government Printer in Pretoria, which for many years has provided sheltered *employment for handi*capped whites, has not a single black on its payroll.

Despite the almost total abolition of statutory job reservation, whites continue to hold many jobs thanks to the colour of their skins. There are still no black engine drivers, guards or conductors on the railways.

Some things have changed over the year, however. State corporations have been forced to trim both black and white workforces as the deepening recession has squeezed their operating budgets. South African Transport Services, which runs the railways and harbours and was one of the biggest employers of poor whites in the 1920s, has reduced its total workforce by 58,300, or more than one-fifth, in the past four years.

However, the poor white problem of the 1980s needs to be kept in perspective. The number of registered unemployed whites has more than trebled in the past four years, but at around 30,000, it is still less than 1 per cent of the economically active white population.

Most whites who have lost their jobs during the present recession have managed to find other employment without having *to compete directly with* blacks. A modest social security system put in place after the great depression and a greater number of working wives have also helped soften *the blow when a breadwinner* loses his job.

The effects of recession on South Africa's 4.6m whites should thus not be exaggerated, but they should also not be under-estimated.

The white men digging trenches in Johannesburg and other cities are the most visible sign that white economic privilege is starting to erode. While South African whites in the higher income brackets remain one of the world's most pampered groups, a combination of economic recession and black advancement has begun to narrow whites' advantage. The University of South Africa's bureau for market research concluded recently that whites' disposable incomes slipped by 18 per cent in real terms between 1980 and 1985. Blacks', coloureds' and Indians' share of total income has risen from 32 per cent in 1970 to 45 per cent last year.

While black wages in manufacturing have risen steadily in real terms for most of the past decade, whites' pay has stagnated except for a brief spurt during the mini-boom in the early 1980s. The average monthly pay of black industrial workers slipped from R253 (at 1980 prices) in 1984 to R249 last year. White wages fell much faster, from R1,008 to R957.

The big question is to what extent the squeeze on white *pockets is diverting the Govern*ment from its cautious programme of race reforms towards policies which shore up white living standards and thus Mr Botha's *electoral support.*

Prof Willem Kleynhans, of the University of South Africa, a veteran commentator on white politics, argues that the Government "will have to do something" to stave off the discontent of hard-pressed working-class Afrikaners. Pointing to the drought-ravaged and debt-burdened farmers, who are again moving to the cities, Prof Kleynhans predicts that Pretoria is "going to give jobs to whites which normally should have been allocated to blacks."

Others argue, however, that the whites' economic plight is not as serious as it was in the 1920s, nor is the leverage of the groups to the right of the government as great as it was then.

Mr John Kane-Berman, director of the South African Institute of Race Relations, says that the AWB, the extreme right-wing Herstigte Nasionale Party, and the Conservative Party appear to draw surprisingly little support from whites who have been most seriously hit by the economic downturn, notably blue-collar urban workers. The groups' main strength comes from Afrikaans university campuses, the civil service and farming communities.

This argument is reinforced by the Botha Government's *willingness to take some tough* decisions to the detriment of white interests in the past year. Mr Botha infuriated Afrikaner farmers by refusing to raise the producer price for maize (thus, in effect, redistributing the extra revenues they expected to black consumers). He also cut Civil Service bonuses. Both decisions were taken shortly before the by-elections last year which brought the HNP's Mr Louis Stofberg to Parliament for the first time.

The Government relief scheme which provides jobs for the 250 white labourers in Johannesburg has created even more work for blacks. The municipality alone employs 1,700 blacks and 500 coloureds under the scheme. Which course Mr Botha chooses in future may depend on how much further whites' economic well-being deteriorates and that in turn will hinge on developments over which Pretoria has little control—among them the gold price, farming conditions and international sanctions.

Lombard

At last, a plan for more jobs with no inflation

By Samuel Brittan

IN MY Economic Viewpoint last Thursday, I understated Britain's economic dilemma. Not only is unemployment rising at 15,000 a month, with no respite in sight. In addition, inflation is likely to start rising again by 1987; and City commentators are vying with each other to predict the appearance of a current balance of payments deficit. So all sides of the stagflation triptych are upon us.

The chart shows how much low inflation in the UK is due to once-for-all external influences from oil and commodity markets. Underlying inflation continues in Britian at 4 or 5 per cent per annum, whereas it has virtually stopped in the OECD.

There is no way by which UK pay per head can continue to rise by 7½ per cent, retail prices by 2½ per cent, and productivity by somewhere between 0 and 2 per cent. The three likely resolutions are: a firm exchange rate policy, involving even more unemployment, substantial sterling depreciation involving an inflationary take-off; or another labour shakeout analogous to 1980-81 to raise productivity. No compromise between the three brings tolerable results. Only a fundamental overhaul of policies and corporate behaviour will do this.

The best long-term idea for tackling stagflation is still profit-related pay, despite the response of what Gavyn Davies rightly calls "the over-pessimistic always-ready-to-find-a-fault" British economic establishment to the Chancellor's idea.

The most promising emergency measure is still a tax on pay increases. Davies, writing in today's Goldman Sachs' UK Economics Analyst, has an ingenious plan for combining the two ideas so that they reinforce each other and become quickly operable.

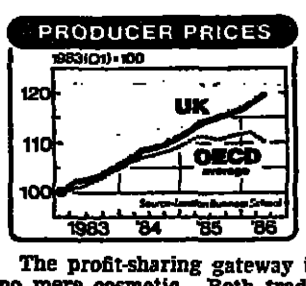
The background to the plan is that the Government would persevere with its medium term objectives for Nominal GDP. If it succeeded in containing labour costs, there would be an automatic boost to output and employment. If it failed, there would still be a lid on inflation.

The core idea is to impose a severe — say 100 per cent — tax on pay increases above a 2 per cent norm, to be paid by employers with more than 100 workers. The one and only "gateway" by which a firm could escape would be if it registered a profit-sharing scheme, and pay rose in proportion to profits.

The original Layard plan for a pay surcharge involved rebates to the company sector as a whole, so that only firms paying above-average lost on balance. The Davies scheme aims to "lock in" the present low rate of inflation; there are thus to be no rebates, with all the problems and destabilising financial flows they could bring.

To give time for the scheme to be put into effect, the Government would immediately announce a pay freeze in the public sector for the next 12 months; and the CBI would be asked to follow suit. Although the pay surcharge would not operate until 1987-88, it would be levied on total pay increases over the two years 1986-88. So those who cheated on the freeze would be caught the year after.

PRODUCER PRICES



The profit-sharing gateway is no mere cosmetic. Both traditional incomes policies and to a lesser extent, the Layard tax penalise profitable and expanding firms. Such firms could, under the Davies scheme, pay what they needed to attract employees, provided their pay increases represented increased profits per employee.

In contrast to previous pay policies, there would be no need for anyone's living standard to drop. If the pay freeze were reasonably successful, there would be near-zero inflation at the beginning of the 1987-88 pay round. The Chancellor would be able to offer tax cuts amounting to 2 per cent of real take-home pay; these would be over-and-above the 2 per cent wages drift likely even under a freeze.

There would be just one further complication. This would apply to profit-sharing schemes which produced increases in remuneration for employees via an increase in the workers' share of company income. As these would be avoidance, in effect if no intention, they would attract a surcharge — but a lower rate say 50 per cent — to promote the shift to profit-sharing. (Firms wanting to raise the profit-related element in remuneration could do so without penalty provided that the basic pay element were reduced correspondingly.)

The one argument I have heard against the Davies plan (from someone with Treasury and DTI experience) is that it is much simpler for companies to apply for a benefit (as in the Government's profit-sharing scheme) than for companies to claim exemption from a tax or penalty. This amount of complication (and excess earnings of lawyers) may be a price to pay for a way out of stagflation which preserves a rule-of-law approach and allows the price mechanism to work at the micro level.

A weak objection is that the pay surcharge would be passed on in prices. But is complete passing of a 100 per cent impost likely when there is firm control of monetary demand?

I doubt whether a 100 per cent tax on pay increases, introduced next year, would still be there in the year 2000. But if the plan lasts even a few years it would, as Davies says, virtually guarantee a major shift to profit-related pay which would become the main force for pay flexibility.

My own prediction is that an inferior version of the Davies plan will be produced later, in response to a run on sterling which the financial establishment always takes more seriously than mere unemployment.

But how much better it would be to start now, when "there is little need to ratchet inflation downwards, but only to forestall pay deals to catch up with the reality of reduced inflation," Davies puts it. This is also a time when the workforce would neither have the desire nor the means to kill such a policy. This is an ideal conjunture and it may not quickly recur. Indeed, I would reinforce it by announcing an exchange rate policy shadowing the EMS at a rate corresponding to DM 3 to the pound.

Letters to the Editor

Nationalised accounts

From Dr D. Sadler

Sir,—British Steel Corporation is clearly some way down the road to complete privatisation and the process of improving the company's image to the private sector has begun.

A bottom-line profit of £38m for the previous financial year, the first surplus since 1975, merits inspection. From 1979 to 1985 some £1.5bn of BSC's assets were written down through accelerated depreciation to take account of capacity no longer required. In effect plant with a potentially useful physical life was deemed "uneconomic" and its remaining value was charged as a one-off loss to the balance sheet.

With privatisation looming this has been reviewed. The result is evident in the small print of the 1985/86 financial statement. Of the £1.5bn written off £127m has been deemed an over-compensation and has, therefore, been written back into the books as a credit on the year's activity. Previous years' losses have, overnight, become part of this year's profits. Without this BSC would have made a loss of £89m.

Once again it is apparent that the accounts of nationalised industries are a poor guide to their actual performance and to decisions on production and investment.

(Dr) David Sadler
University of Durham,
South Road, Durham.

Provisions for a strike

From the Finance Director, British Coal.

Sir, — Your report and leading article (July 30) incorrectly refer to financial provisions made for the effect of the National Union of Mineworkers year-long strike action on the industry's results as "over generous" and "not needed in the event."

In fact the £342m provision was made in the 1984/1985 accounts to cover the costs of recovery from the NUM strike in the early months of 1985/1986 and was used for that purpose. It has been fully and properly accounted for in British Coal's 1985/1986 report and accounts.

M. H. Butler,
Hobart House,
Grosvenor Place SW1.

Markets in change

From the Director General, Grain and Feed Trade Association

Sir,—I was interested to read the article (July 30) headed "Metal Exchange urged to link with agricultural futures market." The text of the article refers to relations between the London Metal Exchange and the London Commodity Exchange, and describes the latter as "the market for agricultural futures contracts."

I should point out that while the LCE includes the soft commodity markets such as cocoa, coffee and sugar which are tropical agricultural produce, the markets associated with the UK and European agricultural industry are situated in the Baltic Exchange and serviced by this association. These include the GAFTA soya bean meal futures market, the London potato futures market, the London meat futures exchange and the London grain futures market.

I hope this will clarify any possible misunderstanding that may have been caused as there have been no discussions between the LME and the aforementioned agricultural futures markets.

J. C. S. Mackie.
24-28 St Mary Axe EC3

Advanced switching

From Mr R. Plumley

Sir,—There was an important element missing in Jane Rippeteau's story about ITT's System 12 digital telephone exchange (July 28). *To ensure* a balanced view of the capabilities of this advanced switching system, it is necessary only to mention that System 12 has been delivered in substantial volume, on time *and entirely* meeting customers' specifications, to PTT administrations in Germany, Italy, Belgium and other countries.

In West Germany, two years ago, the Deutsche Bundespost carried out an extensive technical and practical evaluation of System 12 before placing orders, and the administration's confidence has been totally confirmed by the international, trunk and local exchanges that are now in full public service in the German network.

In Italy, there are now more than 60 System 12 exchanges in public service, and the time-span between initial handover to the PTT and cutover into public service is down to only three weeks, again reflecting total customer confidence in the ITT switch.

In Belgium, where System 12 has been in service for over four years, the RTT administration is providing a lead on the introduction of high level, internationally agreed standards for inter-exchange signalling and other administrative functions, using System 12's advanced digital capabilities.

There are numerous other examples of System 12 in service, providing advanced telecommunications switching, to the entire satisfaction of PTT administrations. A million lines already delivered to customers in a dozen countries is an achievement that would have been hailed as a great success for some of the other digital switches we could name.

On the issue of delivery delays, that is not a technical problem, rather it is a management issue, now fully resolved. Another misconception in the article was that there were insuperable difficulties in adapting the switch to the US market which forced ITT to abandon the attempt. Not true, since in this case, too, the decision was taken following a straightforward management evaluation that the market opportunity did not justify the effort required.

Also contrary to Ms Rippeteau's view, there is no doubt about System 12's ability to handle large-capacity installations. At Aarhus in Denmark, for example, a combined local/toll exchange is already handling traffic equivelent to a 40,000-line local exchange, with total reliability.

In what I can only regard as a rather one-sided article, Ms Rippeteau quotes various ex-employees of this company. They may have convinced her that there is something wrong with System 12, but the fact is that she has been misled by people who clearly have some*thing to gain from creating* a negative impression about System 12's capability, since in most cases they are now working for its competitors.

Russell Plumley.
(Manager, News Services),
ITT Europe.
Avenue Louise 480,
B-1050 Brussels, Belgium.

South African pay

From the Chairman, Holt Lloyd International,

Sir, — On my return from overseas my attention was drawn to an article by Philip Bassett (July 14), which claims that our South African subsidiary is paying wages below the minimum living level.

I do not know the source of your information (described as a confidential document) but you should be aware that it is and has always been the policy of this company to pay well above both the minimum living level and the supplemented living level.

Although our number of black workers has generally been below 20, we have nevertheless reported regularly under the code of conduct declaring our support for the code and stating that our pay and conditions of employment are in line therewith.

T. Heywood,
Lloyds House,
Alderley Road,
Wilmslow, Cheshire.

Change the VAT system

From the Managing Director, Redchoice

Sir,—With ref to the article by David Brindle (July 31) on VAT, is it not time that VAT regulations were altered so that only final users (i.e. those not registered for VAT) were charged VAT on invoices to them?

This would immediately release a large number of people employed by companies and Customs and Excise to chase and check intercompany VAT payments, collections and refunds *which happen on a* regular basis.

At the same time the VAT inspectors released from all this unnecessary work would be able to spend more of their time checking the accounts of retailers and if the estimates are correct, collect a greater volume of revenue for the Exchequer.

S. Ebrahimi.
2A, Market Hill,
Maldon, Essex.

Playing to the box office

From Mr E. Bateman

Sir,—If England had declared their innings closed at the lunchtime adjournment on the final day of the Lords Test Match, there would surely have been another 10,000 spectators by two o'clock to see New Zealand attempt to score about 200 runs in the afternoon, apparently an easy task, but by no means a walkover on a crumbling wicket.

Instead of a breath-taking finish, we had to listen to the commentators bemoaning the lack of public interest in the final sessions of a five-day match. The long-delayed declaration did not come until the inevitable draw had been signed and sealed, if not already physically delivered.

Is it not high time we had a little more playing to the box office?

E. Hugh Bateman,
2 Howard Lodge,
Mount Sion,
Tunbridge Wells, Kent.

FINANCIAL TIMES

Monday August 4 1986

Paul Hannon on Wall Street

Good run for sports equipment

THE UPHILL struggle for the US bicycle industry is beginning to pay off.

Last week's sensational win for Greg LeMond of the Tour de France – the first time an American has won the competition – was a tour de force for American bicycle manufacturers plagued by intense foreign competition.

Domestic bike manufacture is dominated by Huffy Corporation, which makes more than half of the US-built cycles and constructed the winning Tour de France machine.

In the first six months of 1986, industry sales rose 22 per cent for an estimated annual total of 12.5m cycles. Imports, principally from Taiwan and to a lesser degree from Europe, account for more than half of the total. This is still substantially lower than the 1973 record of 15.3m units, according to the Bicycle Manufacturers Association of America.

"It's premature to quantify the LeMond win into sales," says Mr Barry Ryan, vice-president of finance at Huffy, "but it will certainly help. It has drawn attention to cycling as a sport again, much as the 1984 Olympics did." The forthcoming world championships in Colorado will also boost the sport.

Huffy sells about 3m bicycles annually under its own badge and imports a further 200,000 from Taiwan with the Raleigh label.

"The industry is split into the mass K mart-type market and the specialist cycle shop," says Mr Ryan. "Price is critical at the lower end with $100-$120 being the resistance level while a bicycle shop will start at $220 and move up."

	Est. profit for 1986 ($m)	P/e	Price Friday ($)
Huffy	6.5	74	14
Murray Ohio	6.5	15	23
Ilco*	65	12	14
Converse*	6	46	27½
Suave Shoe*	1	22	8

*Traded on OTC market

The bicycle market is seasonal, with most sales occuring in the first half of the year, and faddish, with colours and trim making or breaking a model.

"Unfortunately both the Olympics and the Tour de France are late summer events," says Mr Ryan. "There simply isn't anything we can do about that but we can make the bicycles more fashionable. We've been selling one model for the past 3 years by just changing the colour."

"One of our most successful cycles has been the Sweet Thunder, a small pink girls cycle that has sold more than 900,000 since 1974. This year our Miami Vice bicycle – grey and white frame with white tyres – is selling well. If you want to see what next year's colours are, just look at the mannequins in a shopping mall. There is an uncanny correlation between clothing fashion and cycles," he says.

"Even among the real enthusiasts, colour is important," says Ms Sarah Weiss who runs Conrad's, a specialist bicycle shop in the well-heeled Murray Hill district of midtown Manhattan. "Ferrari red is the most popular. All our cycles are imports because designing a cycle is an art. Most American cycle makers think it's simply putting a load of tubes together. It's much more than that."

Conrad's has benefited from the increased health awareness trend in the US and is wooing a larger number of ex-joggers onto two wheels.

The stock market reaction to bicycle makers and sports-related companies has been positive with Huffy trading near its high for the year at $14, although it showed a $¾ fall on the week.

The other main listed cycle maker is Murray Ohio, which also manufactures a wide range of lawn and garden machinery and has been suffering from high overheads and strong foreign competition. A projected drought in the lucrative northeast has also hit its lawn mower sales. Rooted near its 12-month trading low, Murray Ohio still posts a $½ gain on the week to $23.

Last week was also busy for sports shoe makers when Interco, a clothing manufacturer and retailer, made a bid for Converse, the athletic shoe maker traded on the OTC. Interco made an initial $26 a share offer, extendable to $28 if the Converse board approved the takeover swiftly. Converse jumped to a new high for the year of $27½ after starting the week at $18⅝.

Nike, the leading sports footwear group, stumbled $¾ to $14 on the week in fairly active trading, while Suave Shoe Corp, which makes low-priced jogging shoes, edged $¼ down to $8.

The consensus among Wall Street analysts is that as long as the keep-fit trend continues and foreign competition can be held in check, all sports related stocks are set for a good long run.

Iraq seeks peace before Iran's threatened attack

BY OUR MIDDLE EAST STAFF

PRESIDENT SADDAM HUSSEIN of Iraq yesterday issued an open letter to Iranian leaders calling for an end to the six-year Gulf war. He warned that the next threatened Iranian offensive would meet the same fate as the "previous 22," which he claimed had been launched since July, 1982.

Iran has for several months been warning of a "final, decisive offensive" and Ayatollah Khomeini, the country's spiritual leader, has called for additional volunteers to make their way to the war front.

The economies of both countries have been seriously affected by the collapse in world oil prices, prompting speculation that Iran may attempt a last desperate effort to breach Iraq's defences.

Despite the depth of Iraq's defences and its overall superiority in weaponry, Iran was again successful earlier this year in seizing another slice of territory in the southern Faw Peninsula. Iraq attempted to counter the Iranian advance by counter-attacking in the central Mehran sector, but was forced after six weeks to withdraw again to the international border.

President Hussein urged yesterday that the only way to peace was by a mutual withdrawal from occupied territories, an agreement by both countries not to interfere in the other's internal affairs, and a full exchange of prisoners.

His appeal, however, is unlikely to meet a sympathetic response from Tehran, for whom success on the battlefield is totally linked with the Islamic revolution which overthrew the Shah in 1979.

Ayatollah Khomeini has repeatedly stressed that the minimum condition for ending the war, which has cost up to 500,000 casualties, is the removal from power of President Hussein and the payment of substantial reparations.

Western diplomats doubt whether Iran, in its weakened economic condition, can sustain the logistical support necessary to achieve a significant military breakthrough. Although Iraq has several times proved slow in reacting to offensives, its strength in depth has always allowed it to contain Iranian advances.

The bitterness between the two countries is also contributing to the failure by the Organisation of Petroleum Exporting Countries (Opec) to agree on production restraints in order to stimulate prices. In the past week, Iraq has insisted in Geneva that its production quota can never be less than that allowed to Iran.

Delay to London SE plan for merger with regulatory body

BY ALEXANDER NICOLL IN LONDON

MERGER DISCUSSIONS between the London Stock Exchange and the International Securities Regulatory Organisation (Isro) have slipped past a tentative end-July deadline and are now expected to come to a head in September.

Isro, which has about 190 member firms, was set up as the self-policing agency for international markets centred in London, chiefly Eurobonds, when it became clear last year that the Euromarkets would have to fall under the new City of London self-regulatory structure envisaged by the Financial Services Bill.

A merger with the stock exchange would create a single self-regulatory organisation (SRO) responsible for authorising and monitoring firms' dealings in all London's leading securities markets, both international and domestic.

Few details have emerged of the delicate negotiations, which have been going on since May. But the delay in their completion until after the summer break is understood not to be a negative sign. If final agreement is reached by a joint working party, a recommendation is likely to be put to the stock exchange's ruling council in September.

The talks began as an exploration of whether the two bodies could jointly operate a market in international equities – the most sensitive area because it is one in which their jurisdictions could overlap.

International houses, which previously confined their London operations to bonds, have increasingly been using London as a centre for trading shares of all nationalities. The stock exchange, meanwhile, is anxious not to become simply a market for small domestic shares, with the more important British equities traded on the international market outside its control.

That debate is still at the heart of the discussions. Crucial to it is the choice of a screen system. The stock exchange would favour its own Seaq (Stock Exchange Automated Quotation) system, which already displays prices of several hundred foreign shares, but Isro is known to have been considering alternatives.

The decision to broaden the negotiations into a study of a possible merger of the bodies' future self-regulatory functions recognised that it would be inefficient and costly to have two separate bodies responsible for authorising firms to do securities business, particularly as the distinctions between international and domestic business are breaking down.

More pragmatically, it reflected the fact that members of Isro, which itself as yet has very few staff, increasingly own stock-exchange member firms or have themselves joined the exchange to participate in the Big Bang revolution of UK market trading practices in October.

Even if a merger is agreed, many uncertainties would remain. SROs are due simply to authorise firms to do investment business and to ensure that they meet capital adequacy requirements. The markets themselves are due to be operated and overseen by recognised investment exchanges (RIEs), of which the precise relationship with SROs it still uncertain.

Westinghouse plans link with Plessey

Continued from Page 1

The chances of the Awacs system winning the RAF contract are likely to be enhanced by a joint venture with a British company by Westinghouse, whose share of the RAF contract could be worth about £250m.

Moreover Westinghouse has also agreed to collaborate with Plessey on future airborne radar work if the Awacs bid is successful. Plessey's current radar expertise is in ground and ship-borne radar.

Stromberg-Carlson, Plessey's Florida-based US subsidiary, is likely to announce this week that it has won a trial order from Pacific Telesis, the Bell holding company in California, for a trial order of a digital switch.

This is a crucial stage in the elaborate evaluations process before suppliers are allowed to sell equipment in bulk to the Bell operating companies, each about the size of British Telecom.

Stromberg-Carlson, which is concentrating on small to medium-sized switches, has already won its first field trial from Bellsouth, another Bell operating company.

Stromberg-Carlson is hoping these trials will lead to bulk orders which could treble its current turnover of $135m by the end of the decade.

Plessey says this demonstrates that it is strong enough to compete in the crucial US telecommunications market without a tie-up with GEC.

Swiss executives top European salary list

BY DAVID BRINDLE IN LONDON

A SURVEY of the salaries of senior company executives puts Switzerland first, West Germany second and the UK 10th, out of 15 European countries.

When allowance is made for tax and social security deductions, however, the UK moves up to fifth place behind Switzerland, France, West Germany and Austria.

The survey suggests that the UK is one of the most incentive-orientated of European countries at executive level. Only Denmark is said to pay higher bonuses to its sales directors (23.6 per cent) and only France (16.9 per cent) pays higher bonuses to its chief executives and finance directors.

Details of the survey, by the Brussels-based Executive Compensation Service, are published in the August bulletin of the IDS Top Pay Unit, part of the Incomes Data Services pay research group of London.

The survey covered executive posts in 678 companies in 15 countries and used projected salary levels for January 1 1986. In the UK sample of 110 companies, the average figures show that manufacturing directors and engineering directors are rewarded poorly relative to other senior posts.

Only in Spain is the engineering director among the three highest paid of those listed, while in the UK, Germany and Belgium he is at the bottom of the salary scale.

The IDS analysis of the findings ranks the 15 countries in the following descending order on the basis of

AVERAGE NET PAY OF CHIEF EXECUTIVES

Country	£stg.	Per cent deductions
Switzerland	53,535	35.5
France	41,275	34
Germany	37,455	43
Austria	31,875	48
UK	27,670	42.5
Italy	28,675	44.5
Spain	24,925	41
Netherlands	23,585	56
Belgium	21,710	60.5
Norway	20,805	52
Finland	20,235	55.5
Sweden	18,560	65
Denmark	17,620	65
Greece	11,995	42
Portugal	9,985	34

average total cash remuneration of chief executives, sales directors and finance directors: Switzerland, West Germany, Austria, France, Denmark, Belgium, Netherlands, Sweden, Italy, UK, Finland, Norway, Spain, Greece and Portugal.

Swiss chief executives are said to earn an average of £83,015 ($123,700), although this falls to £53,535 after allowance for deductions. The UK chief executives' average falls correspondingly from £48,110 to £27,670 – the 42.5 per cent deducted being the sixth-lowest proportion among the 15 countries. Bottom of the list is the Portuguese chief executive, whose average pay of £15,345 falls to £9,985 after deductions.

IDS Top Pay Unit Review 66; IDS, 193 St John Street, London EC1V 4LS; by subscription.

World Weather

		°C	°F
Ajaccio	S	30	86
Algiers	S	35	95
Amsterdam	S	23	73
Athens	S	33	91
Bahrain	S	38	100
Bangkok	S	33	91
Barcelona	S	27	81
Beirut	S	25	77
Belfast	C	15	59
Belgrade	S	30	86
Berlin	S	31	88
Biarritz	C	23	73
Bombay	—	—	—
Bordeaux	S	27	81
Brussels	S	27	81
Budapest	F	30	86
B. Aires	R	16	60
Cairo	S	33	91
Cape Town	C	16	61
Caracas	F	28	82
Casablanca	C	23	73
Chicago	S	26	80
Cologne	S	31	88
Copenhagen	S	21	70
Corfu	S	34	93
Dallas	F	23	73
Dublin	F	15	59
Dubrovnik	S	31	88
Edinburgh	F	16	61
Faro	S	26	79
Florence	S	34	93
Frankfurt	S	34	93
Funchal	C	22	72
Geneva	S	31	88
Gibraltar	S	30	86
Glasgow	F	16	61
Guernsey	R	12	54
Helsinki	F	22	72
H. Kong	S	32	90
Innsbruck	S	28	82
Inverness	C	14	57
Islamabad	C	34	93
Istanbul	S	29	84
Jakarta	C	31	88
Jersey	R	13	55
Jo'burg	S	17	63
Lima	C	18	65
Lisbon	F	20	68
London	R	13	55
Los Angeles	C	31	88
Luxembourg	S	31	88
Madrid	F	33	91
Majorca	S	35	95
Malaga	S	27	81
Malta	S	31	88
Manchester	C	15	59
Manila	—	—	—
Melbourne	S	14	57
Mexico City	—	—	—
Miami	S	32	89
Milan	S	31	88
Montreal	S	25	77
Moscow	F	25	77
Munich	S	31	88
Nairobi	F	21	70
Naples	S	36	97
Nassau	—	—	—
New Delhi	S	33	91
New York	S	30	85
Nice	S	30	86
Nicosia	S	37	99
Oporto	C	18	64
Oslo	F	19	66
Paris	S	32	90
Peking	S	30	86
Prague	S	30	86
Reykjavik	S	11	52
Rhodes	S	28	82
Rio de J'o	S	29	84
Rome	S	31	88
Salzburg	S	30	86
San Francisco	F	20	68
Seoul	T	31	88
Singapore	F	30	86
Stockholm	S	21	70
Strasbourg	S	33	91
Sydney	S	18	64
Taipei	C	31	88
Tangier	S	26	79
Tel Aviv	S	30	86
Tenerife	S	25	77
Tokyo	F	29	84
Toronto	C	27	81
Tunis	S	38	100
Valencia	F	29	84
Venice	S	31	88
Vienna	S	31	88
Warsaw	F	26	79
Washington	C	22	72
Zurich	C	29	84

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Hopes rise at Opec over cuts

Continued from Page 1

ter, had evidently offered a cut of 800,000 b/d from the 5.4m b/d which, he said, had been the kingdom's average output in July.

According to industry executives, Saudi production last month ran at 5.6m b/d, not including its entitlement from the neutral zone shared with Kuwait.

The fragile nature of pledges was made clear by the analysis in the latest edition of the Middle East Economic Survey which calculates that those made towards the 1.925m b/d figure effectively meant only 1.65m b/d because Libya, Nigeria and the United Arab Emirates had exaggerated their July output, on which the proposed cuts are based.

Companies quick to gain from Delaware loophole

By Clive Wolman in London

FOR MORE than 10 years, the "Delaware Link" was something that high-powered tax specialists revealed only to their largest multinational clients.

But recently, the mysteries of the link, and the millions of pounds of tax savings it leads to, have been unravelled by almost every company, large or small, with interests in the UK and the US.

Ironically, the link has been popularised largely as a result of a thwarted attempt to sever it which was made last year by one of Britain's Inland Revenue investigation squads, the international counter-avoidance unit.

As a result, the link is now causing a tax loss estimated to be running at between £200m and £300m ($298m-$447m) a year, the biggest leakage from the Revenue's coffers since the offshore "roll-up" funds were unrolled by the Chancellor of the Exchequer nearly three years ago.

The link is used by companies that are operating profitably on both sides of the Atlantic and are able to establish dual residence in the UK and US. This they achieve by exploiting the different definitions of residence in the tax laws of the two countries. In the UK, the test is where the management and control of the company is exercised, in the US, the criterion is merely the place of incorporation.

So a company will set up a subsidiary with its management in the UK but incorporated in the US, usually in the state of Delaware where the tax and company laws are most lenient. The subsidiary will then borrow money from, usually, a UK bank which is used to finance the local operations of the multinational group.

Although the dual resident company can ensure, by applying the US-UK double taxation treaty, that none of its income is taxed more than once, it is able to reduce its taxable income artificially by deducting the interest payments on the borrowed money twice over, once in the UK and once in the US.

Some US oil companies stumbled across the device by chance when they set up UK-managed but US-incorporated subsidiaries to extract North Sea oil in the 1970s. But nowadays almost all dual resident companies are established purely to avoid tax.

In November 1984, the UK Inland Revenue announced that it would block the loophole in the 1985 Finance Act. At that stage it said that about 100 multinational corporations were exploiting the link, creating a tax loss of £100m. But persistent lobbying by the Confederation of British Industry and several companies persuaded the Government not to proceed. The Inland Revenue however warned it would "keep the matter under close review."

Among the lobbyists were several banks, which argued that the link encouraged multinationals to do their financing in London. It is now estimated that more than £6bn has been borrowed, mainly through UK banks, by dual resident companies.

The Revenue proposal and the subsequent decision to overrule it drew the attention of accountancy firms and other tax advisers all over the country to the attractions of the link. According to Mr Malcolm Gammie, a tax specialist at solicitors Linklaters and Paines, the companies realise that the accelerating tax losses will inevitably force the Revenue to block the loophole sooner or later. But meanwhile they are determined to avoid as much tax as they can.

"It has become a standard structure to establish if your business is going into the US," he said. "The attraction is that, when the Revenue stops it, the arrangements can easily be unscrambled."

According to Mr Eric Tomsett, an international tax specialist at accountants Touche Ross: "It used to be just the largest companies that were involved. But since the Revenue put out its threat, we have had queries from all kinds of companies, medium and small."

However, the first legislative strike against dual resident companies has been made by the US Senate. But its current tax reform bill applies only against non-US-owned companies, a provision which the UK Government considers discriminatory and against the terms of the tax treaty. It may therefore be abandoned later this month by the joint committee of the Senate and House of Representatives.

Meanwhile, back in London, the Revenue's investigators are gathering data on the scale of its tax losses with the assistance of their US counterparts in the Internal Revenue Service. The Delaware Link must be the odds-on favourite target for the anti-avoidance section of the 1987 Finance Act.

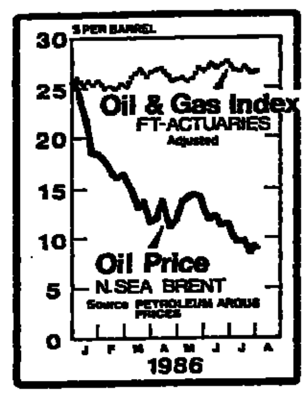
THE LEX COLUMN

The revenge of Dad Joiner

The swing in oil prices from $28 to $9 in six months is by no means unprecedented as a response to glut. In 1860 the Pennsylvania crude price averaged $9.59 a barrel; the following year, several gushers later, the price averaged 49 cents.

In 1930 the US average crude price was $1.25. By 1931, after Columbus "Dad" Joiner's discovery of the giant East Texas field, it was down to 18 cents a barrel, ultimately dragging the Texas Railroad Commission into its unlikely role as a forerunner of Opec. From the very beginning the high fixed and low variable costs – an incitement to overproduction in slumps – have made oil as ponderously cyclical an industry as there is.

In light of such a domestic history it is surprising that it is in the US where the oil industry and financial markets have been least able either to predict the collapse in prices or to contemplate the possibility that such prices levels may be more than a nine-week wonder. Encouraged by predictions from US oil companies of a $20 level by the year end, rather than Standard Oil's Britannic House-inspired scenario of $15 for five years or more, some widely traded US oil stocks are on ratings whose supposed defensive qualities seem highly exposed.



Mug's game

Atlantic Richfield's share price is on a prospective yield of about 8 per cent, assuming the board keeps to its stated intention of paying a maintained $4 dividend. But even if the oil price averages $15 over the year, Arco's earnings per share are unlikely to exceed $2.50. On similar calculations Tenneco's earnings per share could be around $1.90 but the share price is now yielding less than 8 per cent on the hope of a maintained dividend of $3.04 a share.

Where dividends seem safe, at least on a one-year basis, Wall Street is paying premium prices – higher than when oil was at $28 a barrel early this year. Royal Dutch/Shell's price has gained about 19 per cent, while Exxon's is close to its high. A striking example of US bullishness about oil stocks was the flood of US money which washed into Britoil shares from about 180p downwards. The Americans now have about 25 per cent of a company which no-one really knows how to value, now that it has most sensibly cut the "defensive" dividend.

If the rationale for refusing to sell oil stocks is a fear of selling at the bottom and so foregoing the shares' leverage to a near-term surge in oil prices and asset values, then a large dividend payment should be abhorred by investors. To make substantial payments out of reserves and cash flow earned with sub $10 oil is a mug's game, serving only to dilute the positive gearing effect for which investors hope.

The smart companies, which truly deserve shareholder support, are those which approach governments to take on large exploration tracts with few drilling commitments. The cost is minimal and the long-term property value upside considerable. In the UK oil sector this policy has been most noticeably adopted by Premier Consolidated oilfields, which has been taking acreage from Thailand to Papua New Guinea in the past few months.

The much vaunted alternative business plan of buying producing properties from companies has so far been largely abortive because the guaranteed rates of return sought by the buyers cannot be attained if disposal prices are to reflect the optimistic oil price assumptions of the sellers. It could take a further price collapse before genuine distress sales become a feature of dealings between the larger oil companies.

A further collapse seems more and more likely, with the proprietor of the Intercontinental Hotel at Geneva the only clear beneficiary of repeated Opec summits. The organisation has again wasted time by attempting to reconstruct a production sharing agreement instead of a price setting agreement. Even if it were to come up with a perfect set of country quotas adding up to a ceiling exactly in line with preceptions of residual demand for its crude, the problem of price would be unsolved.

First, the markets would be rightly sceptical of its ability to enforce the production controls. Second, it is impossible to fine-tune quotas sufficiently to avoid swings between oversupply with falling prices and undersupply with rising prices. Until Opec agrees on a range of economic prices for its crudes and refuses to sell at other than such a price, its vulnerability to market forces is acute.

Over recent weeks the oil industry and consumers have been restocking at such a rate that most of the front-line European storage facilities are now full. Companies are now in a position of not being able to shift some of their refined products at almost any price. And since prices fell while the industry was stocking up, it is not difficult to imagine what will happen to prices when destocking takes place.

Longer view

But a further oil price fall will only accelerate the process of stimulating demand for oil and deterring exploration and development. Had the oil price remained at $28 then it might have been 1995 before demand for Opec oil would have reached 23m b/d. At that level all non-Gulf countries would be producing at capacity with residual demand for Arab oil sufficient to allow those producers to name their price. If a $15 oil price persists then that moment could arrive five years earlier. It is as meaningless now to value oil stocks on the basis of a gradual upwards movement in oil prices as it was a year ago.

The best bet may be to forget about the ability to pay dividends over the next few years, and look ahead to 1990 and what the companies might be worth then at $20 a barrel. Poor shunned Britoil, even if it makes no discoveries, would have assets worth about 180p a share. If the shares reach that level in 1990, that would represent an annualised gain of about 14 per cent for anyone buying at current prices. But the stress on quarterly performance by fund managers probably rules out such long-term investment buying of oil stocks. The wish to buy only at the market's turning point is as attractive as ever, and will likely prove as vain.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday August 4 1986

STOCK INDEX BONDS

Deutsche Bank launches 'bull and bear' offer

BY CLARE PEARSON IN LONDON

"THE FINANCIAL innovation of the year," claimed one West German financial newspaper last week after Deutsche Bank launched a new instrument in the Eurobond market enabling investors to take a five-year punt on the FAZ stock index.

From a more international view, Deutsche Bank's "bull and bear" bonds are not so revolutionary in themselves but examples of the latest Eurobond market "wheeze" – selling stock index options in Euromarket guise.

These bonds, the most recent in a long series of Eurobonds incorporating features derived from the hedging markets, have taken two forms.

First, there have been the bull and bear bonds, of which redemption amounts are linked to the performance of the West German and Japanese stock markets. They have arisen because the authorities in those countries forbid trading of stock index futures and options, and the unregulated Eurobond market is the only arena in which equity investors can carry out hedging operations.

Despite their Euromarket nature, these bonds are unlikely to be sold outside Japan and West Germany.

The second kind, linked to US stock indices, provide access to that market for investors, principally in Japan, who either are not allowed or lack the know-how to manage a portfolio of individual US shares.

Both types, like bonds that are convertible into shares, provide borrowers with cheap financing since coupons are fixed by reference to dividend yields rather than prevailing coupon levels on fixed-interest bonds.

Deutsche Bank's bull and bear bonds (dubbed Tom and Jerrys in West Germany) fall into the first category and were modelled on a formula developed by Daiwa for an issue in June for Swedish Export Credit and linked to the Nikkei Stock Average of 225 stocks.

The bull bond's redemption amount rises if the index increases and can decrease if the market shows no improvement. Conversely, the bear bond has a higher redemption value if the stock market weakens and a lower value if stock prices rise.

The borrower, however, has no exposure to stock market fluctuations because the variations in redemption amounts cancel each other out.

In the case of SEK's bull bond, the Nikkei Stock Average has to rise to 25,606 for the investor to be redeemed at par at the end of five years. If the index rises to 27,919, the investor is redeemed at 110.59. On the bear issue, redemption will be at par if the index falls to 19,184, but will fall to 60 per cent if the index is at 27,919.

Both types of bonds provide coupons of 3 per cent, well above the average 0.7 to 0.8 per cent dividend yield on the Tokyo stock market.

Daiwa said the bear bonds had been sold to Japanese institutions which held a large Japanese equity portfolio but were unable to sell shares because of their close relationships with companies. Large diversified portfolios could be expected to move roughly in line with the Nikkei stock average and thus the bear bond constituted a reasonable hedge.

The bull bonds, Daiwa said, had a broader professional speculative appeal. They could appeal not only to investors in the Tokyo stock market domiciled in Japan but also to portfolio managers who were at their limits for equity investments but wished to increase their exposure to the market.

Critics of the structure say that moves expected from the Japanese authorities to relax curbs on hedging techniques will destroy the reason for buying index-linked bonds. On the Osaka stock exchange, for example, stock average futures trading is to be allowed and the futures on the Nikkei index will be traded on the Singapore International Monetary Exchange from September.

In contrast to Daiwa's deals, Deutsche Bank's five-year bond was priced so that the bear was better compensated than the bull if things went against him because, Deutsche Bank said, their sample of investors tended to be bullish. With increasing nervousness on the West German stock market last week, however, some traders said investors turned out to be better disposed to the bear bonds.

If the FAZ index on redemption is the same as the level at which it was fixed on July 30 then the bulls are redeemed at 94 and the bears at 123 per cent.

The other form of stock index bonds has been linked to the New York Stock Exchange Composite Index. Nomura devised the NYSE ("nice") bond, which provides the investor with a three-year view on the New York stock market with no downside risk. This is achieved by a separate swap arrangement, protecting issuers Guinness and Mitsui Trust from exposure to the variable issue amount.

The investor in Guinness' bond is redeemed at a minimum of par but at a premium if the index is above the strike rate of 166 at maturity. For instance, if the index, now trading around 135, has risen to 300, investors will receive $18,072 for every $10,000 note.

Unlike the bull and bears, these bonds appeal to Japanese investors who lack the expertise to enter the US stock market directly and are unable to trade NYSE index futures and options from Japan.

The bond's coupon, 3 per cent, is about 0.5 per cent below the average dividend yield on the New York Stock Exchange. However, this represents the cost to the investor of the protection against capital loss offered by the "nice" bonds.

A $100m bond announced in New York last week by Salomon Brothers but intended to be sold internationally was a purer bull instrument. This, the first bond to offer the investor a four-year play on the S&P 500 Index, provides the investor with no income at all. His sole cost is an opportunity cost as he will be redeemed at par.

Unlike Japanese investors, US investors can trade the S&P Index and many other stock indices on active futures and options markets. But these notes uniquely offer a four-year view.

Sceptics dismiss these issues as innovation for innovation's sake. Others say they will take their place along with bonds incorporating other products from the hedging markets, such as interest rate options, as established parts of the Euromarket repertoire.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,105.6	92.0	485.0	1,996.9
Prev	1,709.8	152.8	3,845.8	1,845.4
Other	1,338.1	21.2	985.9	73.9
Prev	2,513.5	189.8	1,064.0	132.6
Secondary Market				
US$	21,807.4	1,260.6	15,445.3	4,918.2
Prev	23,187.2	1,074.8	14,752.1	5,648.3
Other	9,872.4	237.9	1,983.9	2,938.9
Prev	8,606.6	105.9	2,112.3	2,742.4

	Cedel	Euroclear	Total
US$	12,909.4	35,201.6	48,111.0
Prev	13,047.1	39,169.1	52,216.2
Other	7,730.0	9,612.2	17,342.2
Prev	7,547.0	9,820.1	17,467.1

Week to July 31 1986 Source: AIBD

British banks top up with floaters

THE FLOATING rate note market was steadily tapped throughout last week by banks seeking both term and perpetual debt. Demand seemed strong enough to sustain this onslaught and although investors were selective, a number of other issuers were believed to be waiting in the wings, **writes Clare Pearson in London.**

British banks Lloyds and Morgan Grenfell both launched perpetual debt to boost their capital ratios. Since Lloyds is a clearing bank its issue was easily compared with existing commercial bank issues. Morgan Grenfell, however was issuing into the market for accepting house debt, a less clear-cut area.

Lloyds' bond, priced at 100.10 with interest payments at 10 basis points over the six-month London interbank offered rate (Libor) and providing 20 basis point fees was so successfull that some dealers said Lloyds might have been less generous. Immediately after the launch, the bond traded above its issue price and ended the week quoted at 100.15 bid.

Morgan Grenfell's $200m par-priced deal, led by Morgan Stanley International, was on first look even more generously priced. Constructed on the "step-down" coupon formula, the bond pays interest at 50 basis points over six-month Libor for the first five years, at 37½ basis points over for the next five and then at 25 basis points over.

Perpetual bonds for UK merchant banks have, however, been few and far between and have mostly traded poorly. A deal for Hill Samuel issued two years ago and paying ¼ per cent over Libor trades at around 96, while Kleinwort Benson's, paying ⅜ per cent over Libor, trades at around 97.

In the event, an initial spread of ½ point struck investors as irresistible and the deal traded well within its hefty 1 per cent commissions. The deal was quoted at about 99.50 bid to 99.60 offered. Some dealers, however, said that at some stages prices diverged widely from this spread.

In a thin fixed rate market, there was a trickle of demand from institutional investors despite the dollar's decline and this week's Treasury refunding.

UBS Securities' $100m 7¼ per cent four-year bond for Philip Morris, a household name with appeal in Switzerland, seemed to go down well. Credit Suisse First Boston's $500m 7 per cent three-year bond for Denmark, however, did not.

French state shippers buy Chargeurs unit

BY PAUL BETTS IN PARIS

COMPAGNIE GÉNÉRALE Maritime (CGM), the French state shipping group, is taking over for a symbolic franc Chargeurs Reunis, the lossmaking cargo and container ship subsidiary of Chargeurs, the private transport and communications group.

The merger is designed to rationalise and strengthen France's position in the fiercely competitive world shipping business by giving CGM, which concentrates on the North Atlantic and the Pacific, the chance to cover the world.

It will enable Chargeurs to shed its lossmaking cargo business and concentrate on other industrial and business sectors such as television broadcasting.

Mr Jerome Seydoux, chairman of Chargeurs, is one of the main shareholders in France's private fifth channel television network.

Chargeurs also owns UTA, the profitable French airline specialising in long distance routes to Africa and the Far East.

However, the merger is not without risk for CGM, which is already undergoing a major restructuring programme.

The state shipping group, which is not among the nationalised companies soon to be privatised, lost FFr 270m ($40.2m) last year after losing FFr 366m in 1984 and FFr 546m in 1983. The company's deficit is expected to total about FFr 200m this year.

CGM's restructuring envisages the reduction of the company's fleet from 46 ships to about 30 and cutting about 1,000 out of 4,500 jobs.

Chargeurs Reunis, which CGM is taking over, lost FFr 261m last year on sales of about FFr 3.1bn.

The Chargeurs group has agreed to inject funds into its cargo and container subsidiary to restructure its capital before shedding it in the last quarter of this year to CGM.

Moreover, CGM has received FFr 700m in capital grants from the state for 1986–87 to back up its restructuring and redeployment programme.

UAL merger hits snag

UNITED Air Lines (UAL), the largest US domestic carrier, implied at the weekend that its planned takeover of Frontier Airlines from People Express could collapse because it has run into an impasse in negotiations on a new pay scale for pilots, **writes Terry Dodsworth in New York.**

The conflict with the Air Line Pilots Association (Alpa) concerns pay rises for the pilots rather than the cuts predominant in the industry. Frontier pilots, employed by a low-cost and financially troubled airline, earn about half of what their peers are paid at UAL $68,400 a year for a 737 Frontier pilot against $115,000 at UAL.

UAL wants to increase the pay of Frontier captains by 7 per cent a year to bring them to parity with its own pilots in about eight years, a proposal which has been rejected by the Frontier pilots.

Mr James Hartigan, president of UAL, said when the company framed its offer for Frontier, it made "numerous economic assumptions" about the use of aircraft, facilities and the cost of labour.

UAL warned that the pilots' intransigence had "imperilled" its merger agreement with People Express but gave no indication of the prospects of the takeover going through.

Malaysia seeks $350m

WITH MANY Euromarket bankers having decamped to the south of France, virtually no new mandates were awarded last week, **writes Alexander Nicoll in London.**

Malaysia's request for a $350m loan puzzled the market because Friday, the closing date for bids, preceded the weekend general election. At least two groups of banks were believed to be bidding for the 10-year deal, which is to include a tax-spared tranche.

Pricing is sensitive given the country's economic and political difficulties and memories of the flap in April when the Prime Minister was widely reported as saying the country would reschedule its debt. The reports were later denied.

Greece's Public Power Corporation increased its loan from $100m to $150m with the nine lead managers cutting back their commitments. Credit Foncier's $300m facility was also oversubscribed with commitments totalling over $400m but is unlikely to be increased.

Another success was the $120m Eximbank-backed loan for the Gerede-Ankara motorway in Turkey, which has been oversubscribed with possible room for an increase.

Cyprus, a rare but respected borrower, is understood to be seeking bids on medium-term financing of between $80m and $100m, with the precise form open to offers. The loan is to fund development projects and repay existing debt.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Continued Japanese support in some doubt

WILL THEY or won't they? Will Japanese investors come in on the Treasury refunding due this week and shore-up demand as they have over the past few years of record deficits? Or will yields need to go higher to attract the Japanese and other foreigners?

These questions over foreign support for the US Treasury borrowing programme have been *nagging away at the credit* market for the best part of the last two weeks. The fear is that the Japanese in particular will be scared away by the currency risk in investing in dollar denominated securities at a time when the tide seems *to be flowing inexorably* against the American unit.

Many Japanese investors have already been burned very badly on their US bond dealing. They were major participants in the last refunding in May, when they are believed to have bought about two-thirds of the 30-year long bond and around one-third of the 10-year notes. Since then they have taken a paper loss of around 7 per cent as both prices and the currency (accounting for roughly 4 per cent *of the loss) have moved* against them.

Mainly in response to these anxieties, bond yields have

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	—12-month— High	Low
Fed Funds (weekly average)	6.34	6.37	7.23	9.91	6.34
Three-month Treasury bills	5.76	5.81	6.00	7.40	5.71
Six-month Treasury bills	5.77	5.89	5.95	7.45	5.77
Three-month prime CDs	6.26	6.33	6.52	8.10	6.20
30-day Commercial Paper	6.25	6.25	6.70	8.05	6.25
90-day Commercial Paper	6.18	6.20	6.42	8.00	6.20

US BOND PRICES AND YIELDS (%)

	Last *Friday*	Change *on week*	*Yield*	1 week ago	4 wks ago
Seven-year Treasury	100¾	+0¼	7.23	7.27	7.32
20-year Treasury	114¾	+1	7.89	7.99	7.80
30-year Treasury	97¾	−0¼	7.45	7.43	7.22
New 10-year "A" Financial	n/a	0	8.75	8.75	8.50
New "AA" Long utility	n/a	−1⅛	9.50	9.38	9.25
New "AA" Long industrial	n/a	0	9.25	9.25	9.00

Source: Salomon Bros (*estimates*).

Money Supply: In the week ended July 21 M1 rose by $4.4bn to $677.7bn.

moved up steadily from the middle of last month. Back on July 15, the bellwether Treasury long bond, for example, was yielding 7.11 per *cent in the wake of the last* discount rate cut to 6 per cent. By Monday of last week, the yield had jumped to 7.57 per cent, and despite a spluttering rally in the rest of the week, it ended at 7.45 per cent.

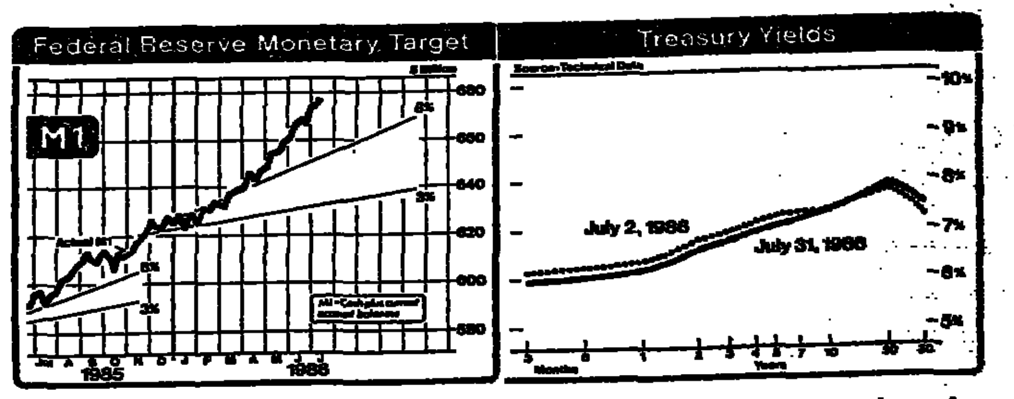
Some dealers were arguing earlier in the week that the long bond yield might have to be pushed right up to 8.0 per cent to get the auction away thing of an extreme view. The consensus came closer to the 7.50 per cent to 7.60 per cent range, and there were a few analysts prepared to bet that the Japanese would not be as reluctant as the pessimists believed.

"For a Japanese investor, the it was a year ago," says Mr dollar is a better bet today than Bill Griggs, of Griggs & Santow, who argues that there is no room for a further precipitous fall in the US currency of t he type that has occurred over the successfully. But this was some- last 12 months. "In addition, rates are still attractive here relative to other places abroad, and the US remains a comfortable place to invest."

The first move to rally in the face of the bearish views on Japanese intentions came on Tuesday, mainly in response to some unexpectedly clear-cut comments on interest rates from Mr Paul Volcker, chairman of the Federal Reserve, and usually a master of the runic phrase. He gave a strong impression that the Fed could toleate a further decline in the dollar, *and that there was room for* more reductions in interest rates —long-term rates, he said, were high relative to inflation. The market recovered its nerve a little on these comments, and was further helped by a flurry of short covering, as investors who had sold short in the expectation of further price falls rushed to cover their positions.

From then on, the market ran into choppy waters, thrown backwards and forwards in relatively light trading by conflicting economic news. On Wednesday, the announcement that the Treasury was planning to issue $28.5 bn in the refunding knocked prices back a little as investors were forced to focus yet again on the prodigious hunger of the US Treasury. But on Thursday, more evidence of an anaemic growth—new orders for manufactured goods were down by 0.3 per cent in June—helped bond prices recover some of their lost ground.

Only a day later, however, investors were having to reconsider the economic numbers. The latest economic indicator statistics came in to show a 0.3 per cent rise in June, well above Wall Street's expectations of around 0.1 per cent, while new unemployment figures showed a fall to 6.8 per cent in July, the lowest since January, and a significant fall from the 7 per cent recorded in the previous month.



These figures clearly keep the guessing game on the economy well and truly open for the time being, leaving Wall Street growth estimates for the current half year all over the place, from zero to 3 or 4 per cent. Mr David Jones, of Aubrey Lanston, summed up these conflicting forces in the following way: "To an unprecedented degree," he wrote in his weekly analysis, "the US economy is split into two opposing forces. As the second quarter came to a close the negative forces seemed to be threatening to pull the economy into recession. However, stronger employment data for July released last Friday suggest that at least a moderate second half rebound may be in the offing."

"Looking ahead," Mr Jones went on, "the stronger forces that give some hope for a second-half pick-up in real economic activity remain concentrated in the expanding service producing sectors . . . Payroll jobs in the manufacturing sector declined a disturbing 23,000 in July marking the sixth consecutive monthly decline."

Terry Dodsworth

UK GILTS

Index-linked issue underpins funding strategy

THE GOVERNMENT's offer of index-linked gilts passed off smoothly last week. The tender for £400m of 2½ per cent Index-Linked 2016 stock was well subscribed, and not enough stock was left to operate as a tap. The market responded well to the tender, and index-linked stocks put on up to ½ point.

All bids of £97 or more were allotted in full and this price—slightly dear to the market—indicated that the Bank of England's source of specific investment demand did not get cold feet at the last moment.

The tender provided the Government with close to £400m of relatively painless funding at competitive rates, with the second payment postponed by two months. This will have provided some comfort to those market analysts who have begun to show signs of concern over the funding programme.

The Government's target for the public sector borrowing requirement in the 1986-87 financial year is £7bn. With gilt-edged redemptions over the full financial wear amounting to around £8½bn, gross funding needs to account for some £15½bn.

Treasury officials say the funding picture so far this year looks worse than it really is. In the first place, the seasonal adjustments applied to the public sector borrowing requirement are slightly dodgy, and it is not clear that they fully reflect the loading of the PSBR in the early months of the year.

Secondly, redemptions of gilt-edged stocks are also loaded at the front end, they say, which makes the figures for net gilts sales look especially poor. This effect is compounded by the weakness of National Savings' sales in the first two months of the financial year.

National Savings was a disappointment last year, failing to meet its target contribution to Government funding. It would be a mistake to write it off entirely, however. By leaving its interest rates unchanged it has managed to become more competitive in the savings market, to the chagrin of the building societies, which have lowered their rates.

In the first three months of the financial year National Savings' net contribution to funding was £660m, and even at that rate it should top £2½bn for the full year. If it were to keep up June's rate of sales, the net contribution could exceed £3½bn.

Assuming the lower figure, the Government would be left needing slightly over £1bn of gross gilt sales a month for the full year, and in the first three banking months, it has more than reached this with new issues and calls on gilts sold before the start of the financial year.

The key is whether the PSBR itself can stay on target. Non-oil tax revenues so far this year have been buoyant and public spending has appeared to be under control, but Mr Peter Fellner, monetary economist at broker James Capel, sees a PSBR outturn of around £8½bn, leaving a net gilt sales requirement of around £7½bn for the year.

The other complication is timing. Since the government broker will not want to crowd the major privatisation issues, especially British Gas, he may want to sell as many gilts as possible before September.

If the PSBR target is broadly hit and privatisation proceeds come in according to plan, this still leaves the government broker needing to put out a full scale tap a month for the rest of the financial year, according to Mr Robert Thomas of broker Greenwell Montagu. With broad calculations of institutional liquidity suggesting UK fund managers are less than flush with cash, the gilts market may need continued help from foreign buying to remain firm.

George Graham

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	[illegible]	−0¾	10.77
AIDC 11 89	[illegible]	[illegible]	0	7.71
Alcan Australia 8⅝ 96	[illegible]	[illegible]	0	8.68

	Issued	Price	Chg. on week	Yield
Rural Bk Aust 12 91	50	111⅞	+0½	8.85
Sanwar Bank 11¾ 92	150	113⅞	+0½	8.67
Sanwar Intl 11½ 92	100	114⅞	+0½	8.18
Saskatchewan 10⅞ 92	100	112⅞	+0⅞	7.95
Saskatchewan 10⅞ 90	125	109⅞	+0½	7.66

	Issued	Price	Chg. on week	Prem.
Daiwa Secs 5⅞ 96	60	576⅞	−38½	−4.82
Elektrowatt 5 98	61	130⅞	−6⅞	−6.36
Fuji Bank 2⅞ 00	100	150⅞	−4⅞	4.07
Fujitsu 3 98	120	110⅞	−7⅞	−0.58
Intec Inc 3 99	50	258⅞	+15⅞	−0.29
Kyowa Hakko 6⅞ 97	40	402	+7	−2.92

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is in millions of currency units except for yen bonds, where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on August 1.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Wall Street checks AMC's novel funding

BY TERRY DODSWORTH IN NEW YORK

YOU ARE a large nationalised motor group with a foreign affiliate that has run out of cash. You have already pumped a lot of money into the overseas operation, have financial troubles of your own at home *and do not want to chip in more* funds. You clearly need to bring in fresh investors, but you want to do it without losing the stake in the affiliate that you have built up so painstakingly over the years.

What do you do? The answer that Renault, the nationalised French car company, found to this conundrum is due to be put into effect later this year at American Motors (AMC), the US company in which it has a 46 per cent stake.

If the scheme is accepted by shareholders, it will give Renault a relatively painless, and certainly cashless, way of reconfirming its commitment to the US company. It will also bring some $200m into AMC from investors willing to take a flutter on a high-yield security in a company with an uncertain future; and it will lay to rest, for the time being at least, speculation that financial and political pressures on Renault in France might force it to pull out of the US after several *years of bloodletting at AMC.*

The capital reconstruction being put to shareholders hinges on the sale of a new issue of convertible preferred stock on which dividends will probably be set at a rate of between 8 and 9 per cent. Proceeds will be used for working capital to see it through a lean period before the launch of a new batch of models starts next year. But apart from injecting $200m of fresh funds, the issue will give the group a new foundation on which to refashion its balance sheet and reduce debt from the present wildly improbable levels.

Renault itself avoids putting up cash because it will not contribute to the new convertible preferred stock. But as part of the transaction it is underscoring its continuing presence in AMC by transforming some of its securities in the company from debt to equity.

Rather in the manner that banks sometimes swop their loans for equity in corporate restructurings, it is exchanging a bundle of its debt securities (debentures and non-convertible cumulative preferred) for another class of junior preferred shares. Because this stock is classed as "junior," it will rank behind that of the convertible to be offered to the public in terms of claims on dividends or assets. Only the common stock will rank lower.

"This is a demonstration that Renault is supportive of our strategy," Mr John Tierney, chief financial officer, says. "By taking securities of a debt character and exchanging them for equity, it is taking more of a gamble on the equity side than before."

There are two other important details in the reconstruction. First, both of the new convertible stocks will count as equity, thus pushing up AMC's present exiguous net worth from $131m to $494m. In addition, the Renault element in the new preferred stock is being provided at the expense of debt, thereby bringing overall borrowings down from $947m to $837m.

AMC's debt:equity ratio will thus fall at a stroke from a whopping 7.79 to 1 to 1.70 to 1 – still not a figure that excites great confidence, but one that should help it to get improved access to short-term bank and trade funds.

Second, the amount of the new convertible preferred offered to the public is to be matched almost exactly by the amount of junior preferred with which Renault emerges from the deal. By this means, the French group will limit potential dilution on conversion: one of the clauses in the transaction gives it automatic conversion rights to match, pari passu, every exercise of the conversion rights on the publicly-held stock.

According to the offer document, Renault's stake could decline to 40 per cent on a fully diluted basis, making certain assumptions on the conversion price of the shares. At the other end of the scale, assuming the exercise of new warrants, the French company's holding in AMC could well rise above 50 per cent.

In order to raise cash AMC has had to sell its special vehicles division and its corporate headquarters for a total of $140m, but it is still in dire straits. The company's working capital decreased from $190m at end-December 1980 to $3m at the close of 1985, and decreased further to a negative $21m at March 31.

All in all, the document demonstrates why so many analysts were dubious about Renault's decision to buy into AMC in the first place back in 1979.

Everything now, therefore, is riding on the new product range.

Changes at National Intergroup account for tiny $1.5m profit

BY OUR NEW YORK STAFF

NATIONAL INTERGROUP, the former US steel company which has been diversifying into the distribution field, earned a tiny profit of $1.5m in the first quarter of its financial year on sales of $1.1bn.

After the payment of preferred dividends, the company had a loss per share of 11 cents against a loss of 80 cents a share in the same period of 1985 when net losses amounted to $12.3m. Sales in the same quarter of last year came to $126m, with the acquisition of two distribution groups in the last 12 months accounting for the big difference in revenue between the two periods.

The results were not strictly comparable because of a series of changes in the group as it moved away from steel into distribution. The 1985 figures included equity income of $15.8m from First Nationwide Financial, which was sold in December 1985, and $3.1m from the sale of the materials distribution business which is now being finalised.

Mr Howard Love, chairman, said that sales of Foxmeyer, the pharmaceuticals group acquired in March, should increase by more than 20 per cent in the current fiscal year, approaching an annual rate of $2bn.

In the metals segment, National Aluminium reported an operating profit of $3.3m on sales of $85m, against a loss of $8.6m on sales of $95m in 1985. The group's National Steel affiliate, in which it now has only a 50 per cent stake and which is accounted for on an equity basis, had an attributable loss of $2.3m against a loss of $10.8m last year.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Mori Seiki Co. ¶‡	60	1991	5	2⅞	100	Yamaichi Int. (Eur)	2.875
Tec Electronics ¶‡	50	1991	5	2⅞	100¼	Nomura Int.	2.821
Japan Dev. & Con. ¶‡	30	1991	5	2⅞	100	Nikko Secs (Europe)	2.875
Nikkan Chemicals ¶‡	20	1991	5	2⅞	100	Daiwa Europe	2.875
Inageya Co. ¶‡	30	1993	7	3¾	100	Nomura Int.	3.750
Royal Co. §‡	70	2001	15	2⅝	100	Nippon Kangyo K'maru	2.642
Nippon Shinpan ¶‡	250	1991	5	2¾	100	Daiwa Europe	2.750
Nippon Shinpan ¶‡	50	1991	5	2¾	100	Nomura Secs (S'pore)	2.750
Philip Morris ‡	100	1990	4	7⅝	101⅜	UBS (Secs)	7.217
Den norske Creditbk †‡	300	1996	10	(a)	100	Morgan Stanley	–
Daihatsu Motor Co. ¶	60	1991	5	(2⅞)	100	Nikko Secs. (Europe)	*
BFCE ‡	100	1996	10	7⅞	100	CSFB	7.875
C. Itoh (c)‡	30	1991	5	8	100⅛	Daiwa Europe	7.969
Centrust Savings (d)†‡	200	1996	10	3bp	100	Banque Paribas	–
Lloyds Bank (e)†‡	600	–	–	10bp	100.1	Lloyds Merchant Bk	–
Taisei Prefab Con. ¶	25	1991	5	(2⅞)	100	Nikko Secs. (Europe)	*
Xerox Credit Corp. ‡	100	1990	4	7½	100⅝	Nomura Int.	7.314
Xerox Corp. ‡	100	1996	10	8⅜	101⅜	Nomura Int.	8.169
Denmark ‡	500	1989	3	7	100¼	CSFB	6.905
Credit National ‖‡	50	1991	5	9	101½	IBJ Int.	–
GMAC ‡	200	1991	5	7⅝	101¼	SECI	7.318
Skanska Banken **(f)†‡	25	1991	5	⅛	100	Morgan Stanley	–
Morgan Grenfell (g)†‡	200	–	–	50bp	100	Morgan Stanley	–
Bergen Bank (h)†‡	200	–	–	⅛	100	Daiwa Europe	–
SociétéGénérale †‡	200	1996	10	(j)	100	SociétéGénérale	–
CANADIAN DOLLARS							
BNP ‡	200	1991	5	9½	101⅜	Daiwa Europe	9.145
SWISS FRANCS							
Mori Seiki Co.** ¶‡	30	1993	–	1	100	Credit Suisse	1.000
Daiki Aluminium **¶‡	25	1991	–	¾	100	Handelsbank	0.750
Kitz Corporation** ¶‡	60	1991	–	¾	100	Credit Suisse	0.750
Seikitokyu Kogyo **¶‡	40	1991	–	¾	100	Swiss Volksbank	0.750
Fluor Corp. **‡	150	1993	–	5½	100	UBS	5.500
Ford Credit Canada ‖‡	75	1991	–	6½	100	UBS	–
Asahipen Corp. **¶	30	1991	–	(1)	*	Bqe Morgan Grenfell	*
Utoku Express **	20	1991	–	(5⅛)	*	Credit Suisse	*
Unilever Canada ‖‡	50	1991	–	6	100	SBC	–
Montreal Trustco ‖‡	30	1991	–	6¾	100	SBC	–
FRENCH FRANCS							
CCCE (b)†⏀‡	600	1993	7	⅛	100	CCF	–
LUXEMBOURG FRANCS							
Finance for Danish Ind. **‡	300	1991	5	7½	100	Kredietbank Int.	7.500
YEN							
Denmark ‡	10bn	1993	7	5⅞	101½	IBJ Int.	5.610

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate notes. ¶ With equity warrants. ⏀ With bond warrants. ‖ Currency linked. (a) Equal to 6m Libor. (b) ⅛ over 3m Libor. If this equals or surpasses the comparable rate in Paris +¼, bond will pay French interbank rate +¼. (c) Deferred coupon. (d) 3bp over 6m Libor. (e) 10bp over 6m Libor. (f) ⅛ over 6m Libor. (g) 50bp over 6m Libor first 5yrs; next 5yrs 37½bp; from yr 11 25bp. (h) ⅛ over 6 m Libid. (j) Equal to 6m Libid. Note: Yields are calculated on AIBD basis.

American banks plan to unite in $438m deal

BY OUR FINANCIAL STAFF

TWO US banks, Maryland National and American Security, are to merge in a deal worth $438m. After the deal, their combined assets will total around $12.9bn.

The banks said their affiliates have unanimously approved a definitive merger agreement. The value of the transaction, based on current market prices for Maryland National's stock, is about $438m or 1.8 times the book value of American Security at December 1986.

The merger calls for the exchange of 0.81 of a Maryland National share for each outstanding share of American Security common.

The banks said American Security also granted Maryland National an option to buy 25 per cent of its shares at $31 a share after the exercise of the option, while Maryland National granted American Security an option to purchase 3.15m of its shares at $43 each.

Tan Koon Swan disposals

BY OUR FINANCIAL STAFF

MALAYSIAN politician Tan Koon Swan, the man at the centre of a stock market crisis in Singapore and Malaysia, has agreed with three broking houses the sale of shares in two companies related to him.

Under the accord, the brokerage firms—Baltas J. & Co, Tan E. G. & Co and Ong & Co—can sell their shares in Supreme Corporation and Grand United Holdings, both Tan companies, for 60 cents each. The prospective buyer is Freelin Investment.

The deal relates to forward contracts belonging to Pan-Electric Industries, which went into receivership last November owing $390m. Mr Tan faces trial today on a number of charges relating to the failure.

If the shares are not sold in 18 months, the brokerage houses can sell them to Freelin in the week following the period at $1.20 per Supreme share and 90 cents per GUH share. Freelin is a Singapore company formed to help solve Tan's forward contract problems.

Petrofina profits held in check

BY TIM DICKSON IN BRUSSELS

PETROFINA, the Belgian oil and energy group which owns Charterhouse Petroleum, the British oil company, reports a 8.4 per cent rise in net consolidated profits for the first half of this year to BFr 9.46bn ($219m).

The figure, however, takes into account a BFr 4.8bn provision for reduced stock values brought about by the decline in the oil price.

The company, which is Belgium's largest industrial group, said that a fall in production revenue was offset during the six months by better performances in the distribution, refining and petrochemical sectors.

The fall in crude oil prices has led Petrofina to reduce exploration and development budgets by one-third.

Subsidence of the seabed above the Ekofisk Field, in the Norwegian sector of the North Sea, is forcing the group to jack-up the platform decks of the central complex.

The operation, scheduled to take place in July 1987, is part of a series of measures aimed at insuring safety in the event of severe storm conditions. Meanwhile, major modifications to certain platforms to reduce wave impact have been made.

Alcom rights left with Alcan of Canada

BY WONG SULONG IN KUALA LUMPUR

A 32.6m ringgit ($12.4m) rights issue by Aluminium Company of Malaysia (Alcom) has attracted virtually no interest among minority shareholders. This has left Alcan of Canada, the principal shareholder, with almost the entire issue.

At the recent close of the offer, acceptances for a total of 13.09m shares were received—including 13.05m from Alcan, which holds 40 per cent of Alcom.

According to its earlier undertaking, Alcan will take up the remaining 19.55m shares as well.

The lack of response to the two-for-three rights issue was to be expected as Alcom shares are being traded at less than 70 cents on the Kuala Lumpour Stock Exchange.

The rights is being made to raise working capital for the company which incurred an after-tax loss of 27.3m ringgit for 1985, up from a net loss of 19.6m ringgit in 1984.

The company has been badly hit by the Malaysian recession and stiff competition from cheap imports. Another "substantial loss" is expected for the current year, but Alcom said it is confident of better times ahead.

UK COMPANY NEWS

Eleco launches fierce attack on Whitecroft

BY RICHARD TOMKINS

Eleco, the construction, engineering and property group fighting a bid from Whitecroft, the textiles, building supplies and light fittings conglomerate, launched a fierce attack on Whitecroft's offer over the weekend, in advance of the final date for acceptances this Wednesday.

Whitecroft is offering three of its own shares for every five of Eleco's, valuing Eleco at £22.9m on Whitecroft's closing price of 223p on Friday.

Eleco dismissed this offer as grossly inadequate and said that, at the first closing date, acceptances accounted for a "meagre" 259,580 shares, representing only 1.5 per cent of its ordinary capital.

Chairman Mr Frank Webster said that Eleco's property portfolio carried a book value of £14.07m on June 30, so that the value put on Eleco's trading activities by Whitecroft's offer was £8.84m.

However, those trading businesses delivered net profits of £1.03m in the year to last June, so Whitecroft's offer valued them on a price/earnings multiple of 8.59 times compared with an average of 14.97 for industrial companies generally Mr Webster described this valuation as "paltry."

Eleco repeated its forecast of a pre-tax profit for the year to last June of £2.7m for the group as a whole, and rejected Whitecroft's claim that this would include a gain which should be treated as an extraordinary item.

It said that Whitecroft had extraordinary losses of £2.1m last year, and if Whitecroft's pre-tax figure was adjusted to include those, the last two years would show Eleco's profits rising by 54 per cent while Whitecroft's fell by 12 per cent.

Guinness in talks on Scottish hotels sale

By Richard Tomkins

Guinness, the drinks conglomerate, is understood to be in detailed negotiations over the sale of two of Scotland's best-known hotels to Norfolk Capital, the hotel group, for about £25m.

The hotels are the newly refurbished Caledonian and the North British, both in Princes Street, Edinburgh. They are part of the Gleneagles Hotels chain and were acquired by Guinness when it bought the Bell's group a year ago.

Both hotels had always previously had Scottish owners and their disposal to a London-based company with no other Scottish interests could re-awaken concern about Guinness's attitude towards its Scottish constituents.

The group's chief executive, Mr Ernest Saunders, was last month involved in a furore over his decision not to appoint Sir Thomas Risk, governor of the Bank of Scotland, as non-executive chairman of the group. This was seen as a breach of undertakings given to appease Scottish objectors during Guinness's takeover of Distillers earlier this year.

Guinness would not comment on the possibility of selling the two hotels yesterday, but denied that it had entered into any undertakings about their ownership when it acquired them.

It sold one of the four Gleneagles hotels, the New Piccadilly in London, during the Distillers acquisition: the other in the group is the Gleneagles itself.

If Norfolk Capital succeeds in buying the two Edinburgh hotels, it will take the number it operates to 11. Its last acquisition was in October 1985 when it bought the Briggens House Hotel near Ware, Hertfordshire.

Over the last two years Norfolk Capital has gradually built up a portfolio of four-star hotels through a combination of acquisitions, disposals and refurbishments.

Neepsend in loss despite better trend

BY NIGEL CLARK

Neepsend, Sheffield-based engineer, made profits in the second half of 1985-86 but they were not as high as the directors had hoped and failed to wipe out the losses of the first six months.

Mr Frank Wright, managing director, said that they had been hoping to recoup the write-downs made in the first half but they did not get the full benefit of their actions.

In the year end-March there was a pre-tax loss of £159,000 compared with profits in the previous year of £353,000. Turnover was down from £22.97m to £19.27m.

With tax of £34,000 (£32,000) and minority credits of £4,000 (£10,000) there was a loss per share of 0.89p, against earnings of 2.44p. The directors are recommending an unchanged single final payment of 0.1p.

The problems in the first half were the result of the falling price of molybdenum. There was a write-down in stocks at the Ferro Alloys and Metals subsidiary costing, in effect, £500,000.

The price of molybdenum has stabilised but Mr Wright remained cautious about the prospects for the present half.

"I would not like to forecast the outcome but despite things being a bit sluggish we are achieving our budgets," he said.

For the year under review the company made a trading profit of £490,000 (£1.12m) with the UK companies contributing £444,000 (£1.32m) and £46,000 from the Canadian companies, against losses last time of £198,000.

Finance charges however took £649,000 (£768,000). Below the line there were extraordinary credits of £495,000 (£42,000) mainly from the profit on the sale of Sheffield Machine Knife to give an attributable profit of £374,000 (£373,000).

Mr Wright said that the company remained highly geared and steps were being taken to cut borrowings. At the end of the year these stood at about £4m and it was hoped to be able to cut that by £2m from the proceeds of the sale of land for a supermarket.

Planning permission had been turned down by Sheffield City Council, but Neepsend was appealing to the Department of the Environment and was optimistic of success.

Stewart Nairn reorganisation

TERMS HAVE been announced for the reorganisation of Stewart Nairn Group, the international property company. Under the complex deal, Bukhatir Investments will sell its 57.24 per cent stake and Stewart Nairn will undergo a reverse takeover by the management of Ossory Investments and Bence Lane Development.

The deal has three linked stages. Bukhatir will sell 48m ordinary shares for 13.75p each and convertible loan notes with a nominal vale of £586,343 for £905,417. Total consideration will be just over £7.5m. The ordinary shares will be placed by Quilter Goodison and the loan notes bought by Stewart Nairn's new management.

Under the second stage, Stewart Nairn will sell Bukhatir properties in Sharjah and Dallas and receive the benefits of a Floridan property sale. In a return, Stewart Nairn's debt to Bukhatir will be reduced from £2.26m to £723,000.

The third stage will see the purchase of Ossory Investments and Bence Lane Development for £4,189,000, satisfied by the issue of new Stewart Nairn ordinary shares at 13.75p each.

Following this purchase, Mr John Walker, a director of both Ossory and Bence Lane, will become chairman of the Stewart Nairn Group; Mr J. M. Shaoul will also be appointed a director. The existing chairman Sir Victor Garland and three directors, Mr H. A. Gazdar, Mr D. C. Kothari and Mr W. S. Owen will resign.

Hobson chief lifts stake

Mr Rodney Harnett, chairman of Hobson, the loss-making USM start-up venture which went through a reorganisation last month, has increased his shareholding from 1.2m to 2.5m shares. He now has a 9.6 per cent stake.

The company came to the market in 1984 to develop a process for making extrusion dies. However, it has yet to trade and has been troubled since its formation by bitter boardroom wrangles. Last month is announced losses of £209,000 (£68,000) for 1985 and surrendered control to Mr Stanley Sharp, an accountant.

Mr Harnett, who took over the chairmanship from Mr David Stewart in April, has exercised his option to buy another 1m shares cum rights from Mr Stewart's holding.

He has also taken up his rights to 600,000 shares under the terms of last month's rights issue, but has renounced his rights to 160,000 shares and has disposed of 300,000 cum rights.

The directors said they noted the sharp rise in Hobson's share price in the last few days but are not aware of any reason for it.

Forminster

Forminster, which makes clothing, slightly increased full-year taxable profits from £1.58m to £1.6m on turnover of £16.8m, against £15.35m.

Earnings per share for the year to end-April 1986 rose by 4.54p to 24.11p. The final dividend is 4.5p (4p) for a 6.53p (6.03p) total.

Forminster said that current sales were encouraging.

Globe Inv. ahead of targets

Globe Investment Trust announced yesterday that it had beaten growth targets for both income and net asset value in the first quarter of 1986-87, but warned that it would be taking a cautious stance in the coming months.

The trust said it was concerned at the continued weakness in the oil price, at the lack of growth in the US economy and at a more volatile London market, and said it would retain more cash than usual.

For the three months to end-June the trust's after-tax earnings advanced from £4.14m to £4.32m and earnings per share from an adjusted 0.837p to 0.853p. Net asset value per share at the end of the period was 164.56p compared with 163.02p a year earlier.

Cardiff Property

Cardiff Property reported increased pre-tax profits for the six months to the end of March 1986 of £12,302 against £4,870 last time. Turnover was higher at £95,940, compared with £91,652.

Earnings per 20p share came out at 0.43p (0.19p) and the interim payment is maintained at 0.6p net.

Profit for the period was boosted by extraordinary credits of £751,113 (nil) relating to the net proceeds from property sales. After tax of £3,567 (£1,461), the total came to £759,848 against £3,409.

Shandwick purchase

Shandwick, one of the UK's largest public relations companies, has agreed to acquire for £347,100 Business Image, a public relations company which specialises in high technology industries.

Renold profit warning

Sir Campbell Adamson, the chairman of Renold, told the annual meeting on Friday that the hiccup in demand since March would greatly affect the first half results.

The company, a Manchester-based maker of power transmission products and machinery, would not therefore, achieve for the six months to end-September profits matching the £2.5m reached last time. First half profits at Renold were normally well below the second, he said.

In the past few weeks, however, there had been some signs of improvement in demand, and the extent to which that trend continued would determine the outturn for the year. For the year to March 29 1986 the pre-tax result was £7.6m (£4.5m).

The chairman added that the company had all but completed phase one of the plan to return Renold to reasonable profitability and was now fully involved in planning for the next phase. This involved putting the company in a position to achieve faster growth and improving the return to shareholders.

The directors were confident that the company would continue to develop and they would be bold in their strategy to achieve that end, he added.

COMPANY NEWS IN BRIEF

OCEAN TRANSPORT and Trading—Mr Ron Brierley's IEP Securities has spent over £5m adding 2.45m shares to its OTT stake, taking the holding up to 9.38 per cent. Shares in the shipping and freight group have risen steadily since mid-May when they were around 184p, compared with Friday night's close of 218p. The average cost of the IEP holding is estimated at 203p per share.

DWYER & CO, a property investment company based in Cork, Ireland, plunged into the red in the year to March 31, 1986 with pre-tax losses of I£23,889 compared with profits of I£10,249 (£9,700). The attributable loss was £27,162 (£867 profit). Loss per 25p share was 2.58p (0.25p earnings).

MICROGEN HOLDINGS has exchange contracts for the acquisition of the whole of the issued share capital of Datapro for £1.9m.

NEXT'S offer for Grattan has become wholly unconditional. As at July 29, acceptances had been received in respect of 49.64m Grattan stock units (92.7 per cent). Elections for the cash alternative had been received in respect of 77.61m Next ordinary shares (68.2 per cent of those underwritten).

FERGABROOK GROUP — Of the £2.08m 12 per cent convertible unsecured loan stock offered by way of rights, £1.64m nominal (approx 81.1 per cent) has been taken up.

HUNTING PETROLEUM reported the acquisition by its wholly owned subsidiary, Hunting Oilfield Services of Big Inch Marine Systems, a wholly owned subsidiary of Heerema Group, for US$800,000 (£537,000) payable in cash. Big Inch manufactures connector components.

SWINDON PRIVATE Hospital—Health Care Services has entered into a conditional agreement to acquire a further 140,000 ordinary shares from the Schroder UK Smaller Companies Exempt Fund. Consideration purchase is 390,000 new ordinary in HCS. Following completion, HCS will own a total of 365,000 shares (26.1 per cent) of Swindon Hospital.

HANSON INDUSTRIES has sold the assets and liabilities of its Brookwood Furniture Company to an investment group led by the company's management for some $8.5m (£5.7m). Brookwood had sales of $24m and pre-tax profit of $819,000 in the year to September, 1985.

CAMBRIAN AND GENERAL Securities net asset value at June 30, 1986, was 190.24p (116.67p) per ordinary share or 319.26p (142.37p) per capital share.

ELECTRA INVESTMENT Trust's net asset value at June 30, 1986, was 197.27p (157.36p) per 25p share adjusted for potential dilutive factors, or 206.07p (158.42p) unadjusted.

SCANRO HOLDINGS has agreed to acquire Trimdon Clothing Company for £462,000 cash subject to shareholders' approval at an EGM. Trimdon, which is based in County Durham, employs 187 people, and manufactures a range of sports and leisurewear.

WHEWAY is buying, through its subsidiary, Wheway Distribution, certain assets of the fasteners distribution business of Fastener House, including trade names, fixed assets and stock and cash for £814,000. The consideration is being satisfied by the issue of 3.15m new ordinary shares, which are being placed at 26p each.

SHARE STAKES

Changes in company share stakes announced over the past week included:

Cosait—Director J. Ross sold 24,853 shares and holds 494,147 (4.87 per cent).

Argyll Group—Kuwait Investment Office holds 14m ordinary (7.065 per cent).

TR Natural Resources—Following recent purchases, Consolidated Gold Fields holds 1,525,000 ordinary (5.13 per cent). IFM Foreign Investments lifted holding from 1.7m to 1.9m shares (6.4 per cent).

Daks Simpson Group—Director J. F. Mengers has disposed of 29,500 "A" non-voting ordinary.

Cullens—Director D. I. Claxton has sold 10,000 ordinary.

Wiggins Group—Abela Corporation has sold its shareholding.

Tarmac—A. Osborne, director, has sold 20,000 shares at 474p.

LADBROKE INDEX
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PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
AMEC	Aug 28	Interim 4.0
Ault and Wiborg	Aug 23	Interim due
BCI	Aug 29	Interim 6.0
BICC	Sept 4	Interim 3.5
*BP	Aug 28	Interim 12.0
Babcock Intl	Aug 28	Interim 4.0
*Barclays Bank	Aug 7	Interim 8.4
British Aerospace	Aug 30	Interim 5.8
Bunzl	Sept 4	Interim 4.25
Cadbury Schweppes	Sept 5	Interim 1.6
Cement Roadstone	Sept 4	Interim 1.16
*Commercial Union	Aug 13	Interim 4.85
Cookson	Sept 5	Interim 2.4
De Beers	Aug 20	Interim 15c
*GKN	Aug 6	Interim 4.5
General Accident	Aug 14	Interim 8.0
*Glynwed	Aug 5	Interim 3.75
Gold Fields SA	Aug 20	Final 80c
Hawley	Aug 21	Interim 1.75c
*Hickson Intl	Aug 7	Interim 5.0
Hillsdown	Sept 4	Interim 1.2
*HK Shanghai Bank	Aug 26	Interim $0.15
Horizon Travel	Aug 22	Interim 0.98
*IMI	Sept 2	Interim 2.2
*Kleinwort Benson	Aug 6	Interim 6.0
LASMO	Sept 3	Interim 4.5
Ladbroke	Aug 29	Interim 5.0
Laird	Sept 6	Interim 2.4
McAlpine (A.)	Aug 20	Interim 3.8
*Marley	Aug 27	Interim 1.4
Metal Closures	Sept 3	Interim 2.2
P & O	Sept 4	Interim 6.0
*Pentland Industs	Aug 28	Interim 0.84
Queens Moat Houses	Aug 20	Interim 0.765
*Rentokil	Aug 19	Interim 0.89
*Royal Insnce	Aug 14	Interim 9.2
*STC	Aug 4	Interim nil
*Securicor	Aug 6	Interim 0.49
*Shell Transport	Aug 7	Interim 12.5
Sime Darby	Sept 2	Final 8.8 sen
Slough Estates	Aug 28	Interim 2.2
*Smith and Nephew	Aug 6	Interim 1.4
Smith (W. H.)	Aug 21	Final 0.943
Standard Chartered	Aug 20	Interim 10.5
Sun Alliance	Sept 4	Interim 5.75
*TI	Aug 7	Interim 5.0
Taylor Woodrow	Aug 27	Interim 4.0
Transport Dev	Aug 12	Interim 1.7
Tricentrol	Aug 14	Interim 4.0
*Ultramar	Aug 12	Interim 4.0
Wates City of Lndn Props	Sept 3	Interim due
Weir	Aug 28	Interim 0.75
Williams Holdings	Aug 29	Interim due
*Yorks Chems	Aug 6	Final due

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Commercial Bank of Near East, Consolidated Co. Bultfontein Mine, T. Cowie, Griqualand West Diamond, STC.

Finals: Lawrie, Nordic Investment Trust, Peel, Rush and Tompkins.

FUTURE DATES

Interims—

Conder	Aug 8
Metal Bulletin	Aug 12
Relyon	Aug 8
Rock	Aug 14
Spear (J. W.)	Aug 8
TR City of London Trust	Aug 7

Finals—

Cantors	Sept 9
Jos Holdings	Aug 15
Magnetic Materials	Sept 5
Scottish and Mercantile Inv.	Aug 7
Victor Products	Aug 14

FT SHARE INFORMATION

The following securities have been added to the Share Information Services:

Accord Publications (Section: Newspapers, Publishers)
Arlington Securities (Property)
Hodgson Holdings (Industrials)
Lanca (Drapery & Stores)
Nationwide Bldg. Society 9¹³⁄₁₆pc 6/7/87 (Loans — Building Societies)
Tomkins (F.H.) 5.6pc Conv. Red. Preference shares (Industrials)

FINANCIAL TIMES STOCK INDICES

	August 1	July 31	July 30	July 29	July 28	July 25	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.90	89.06	89.35	89.04	88.88	89.19	94.51	80.39	127.4	49.18
Fixed interest	95.85	95.97	96.02	95.74	95.76	96.03	97.68	86.55	150.4	50.53
Ordinary	1273.4	1272.0	1280.3	1271.6	1263.8	1263.7	1425.9	1094.3	1425.9	49.4
Gold Mines	196.0	193.3	193.2	205.0	199.3	196.7	357.0	185.7	734.7	43.5
FT-Act All Share	773.01	771.80	775.34	769.09	767.86	767.00	832.39	664.42	832.39	61.92
FT-SE 100	1561.8	1558.1	1566.3	1556.4	1549.4	1545.8	1717.6	1370.1	1717.6	986.9

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
‖‖	F.P.	15/8	127	108	‡Airsprung Group 10p	112	......	5.4	2.8	6.8	7.4
§115	F.P.	22/8	141	128	‡Anglia Sec Homes 10p	141	......	R1.63	5.0	1.6	17.4
§115	F.P.	—	125	120	‡Atlas Conv'ting Eqs 5p	123	......	R4.9	2.3	5.6	11.1
§67	F.P.	8/8	71	68	‡BBB Design Grp 5p	70	......	L1.0	4.2	2.0	16.8
‖‖	F.P.	—	289	280	BTR Nylex A$0.50	286	......	Q15c	2.7	2.2	17.1
§145	F.P.	15/8	158	143	‡Beaverco 5p	150	......	u5.0	2.4	4.7	11.9
‖‖	F.P.	—	53	41	Bertrams Inv. Tst	45	......				
§37½	F.P.	25/7	43½	38	‡Bipel 5p	42½	......	R1.23	3.1	4.1	10.6
125	F.P.	8/8	147	128	¶Borland Intl. Inc	145	−2	u02c	1.4	0.9	20.3
§63	F.P.	6/8	69	61½	‡Camotech 10p	65	−1	R2.0	2.4	4.3	13.3
§110	F.P.	18/7	115	85	‡C'bell & Armstrong 5p	98	......	u3.91	1.9	5.6	12.5
§125	F.P.	7/8	135	128	‡Chelsea Man 5p	128	......	L2.2	2.8	2.4	21.1
100	F.P.	—	85	84	Child Med C.IT£1‡‡	85	......	—	—	—	—
‖‖	F.P.	18/7	110	85	Clarkson (Horace)	100	......	L4.75	1.5	6.7	13.7
¶¶	F.P.	—	100	57	Clayform Warrants	60	......	—	—	—	—
§84	F.P.	1/8	91	84	‡Coated Electrodes 5p	90	......	u3.9	1.6	6.1	14.0
§70	F.P.	22/8	74	71	‡Fletcher Den'ys S. 5p	74	+1	L2.5	1.9	4.8	15.7
210	F.P.	—	209	192	G. T. Management 1p	209	......	R3.0	3.4	2.1	17.1
150	F.P.	25/7	156	150	Guthrie Corp	154	......	u5.3	2.2	4.8	9.9
150	F.P.	15/8	161	156	Harrison Inds. 10p	156	......	g5.0	2.7	4.5	11.7
§92	F.P.	28/8	95	87	‡Hille Ergonom 10p	93	......	L2.0	3.1	3.0	12.8
§20	F.P.	15/8	25	21½	‡Hughes Food 5p	24½	......	R0.5	2.8	2.9	17.6
—	F.P.	—	£37	£36	JF Pacific Warrant S.A.	36½	......	—	—	—	—
R30	Nil	—	325	180	Joel (H.J.) Ltd Units	180	......	—	—	—	—
§154	F.P.	13/8	159	157	Kleinwort Dev. Fnd	158	......	—	—	—	—
100	F.P.	15/8	90	85	‡M6 Cash & Carry	87	......	u3.55	2.1	5.7	9.7
¶500	F.P.	29/8	516	427	Morgan Grenfell £1	435	......	18.5	—	2.8	—
§120	F.P.	29/8	120	110	‡Per. Computers 5p	110	......	R3.0	3.3	3.8	11.2
§113	F.P.	29/8	114	112	St. David's Inv. Tst. Inc.	112	......	N6.8	—	8.6	—
§75	F.P.	29/8	77	75	Do Cap.	76	+1	—	—	—	—
§72	F.P.	15/8	160	99	‡Shield Group 5p	140	+10	L2.0	3.1	2.0	20.4
§165	F.P.	1/8	184	160	‡Smallbone 10p	160	......	u5.0	2.1	4.4	14.9
—	F.P.	—	58	43	Smith Newcourt War'ts	58	+3	—	—	—	—
§40	F.P.	31/7	42	35	‡Soundtracs 5p	37	......	61.2	2.8	4.6	11.0
§98	F.P.	6/8	106	98	‡Space Planning 10p	100	......	R1.8	3.4	2.5	16.3
§110	F.P.	28/8	125	119	Stanley Leisure	122	−2	u3.25	2.8	3.8	13.5
130	F.P.	21/8	149	150	‡TV-am 10p	150	......	R5.75	2.6	5.4	10.0
§95	F.P.	25/7	114	104	‡Task Force 5p	110	+2	R1.78	3.8	2.3	16.3
112	F.P.	8/8	134	116	Tenby 50p	134	+5	u4.0	2.6	4.2	10.4
190	F.P.	1/8	242	219	Thames TV	224	+1	49.5	1.9	6.0	12.6
120	F.P.	6/8	130	100	Tibbet & Britten 5p	125	......	R3.5	2.6	3.9	14.0
§63	F.P.	22/8	68	66	Unilock 20p	67	......	1.98	2.7	4.2	12.7
‖‖	F.P.	—	160	152	VSEL Consortium £1	155	−3	W5.68	4.3	5.2	4.9
¶¶	F.P.	—	100	95	Welsh Ind. Inv. Tst. 5p	100	......	—	—	—	—
106	F.P.	22/8	112	107	Windsmoor 5p	107	......	u3.25	2.3	4.3	14.4

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
§97.947	£25	17/9	27¼	25⅛	Bankers Inv. Tst. 10½% Deb. 2016	26⅛	−¼
§99.256	£30	29/8	30⅛	26¼	Brit. Alcan Aluminium 10¾% Deb. 2011	27½	−¼
§94.203	£25	31/10	25¾	22¾	Brixton Est. 9.5% 1st Mort Deb 2026	23¾	−¼
§100p	F.P.	15/8	107p	105p	Business Mortgages Tst. 8.6%Cum Prf.	106p	......
109.89	£10	29/8	[illegible]	[illegible]	Estates & Gen. 11¼% 1st Deb 2018	[illegible]	[illegible]
§94.45	£30	31/10	[illegible]	28	European Inv. Bank 9¾% Ln 2001	29¾	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	‡Fergebrook 12% Cnv Uns Ln 1992-97	[illegible]	[illegible]
96.114	£25	24/10	27¼	24¼	Globe Inv. 10% Deb. 2016	[illegible]	[illegible]
§99.054	£40	29/10	[illegible]	[illegible]	Govett Strat.Inv.Tst.10¼% Deb. 2016	[illegible]	[illegible]
97.963	£25	24/10	[illegible]	[illegible]	Gt. Portland 9¾% 1st. Mort. Deb. 2016	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	JF Pacific Warrant S.A. Pref.	[illegible]	[illegible]
105.523	£25	23/8	[illegible]	[illegible]	Land Securities 10% 1st. Mort. Deb.25	[illegible]	[illegible]
§99.293	£25	24/9	[illegible]	[illegible]	Lon. Shop Prop. 10% 1st. Mort. Deb 2026	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Mercury Intl. 7¾% Cum Pref.	[illegible]	[illegible]
[illegible]	[illegible]	—	136p	130p	Morgan Grenfell 11¼% Cum Prf.	136p	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Nationwide 10¼% 27/8/87	99⅞	[illegible]
§99.937	£25	24/10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
¶100	£10	2/9	9	8	Newcastle & Gate. Wtr. 7% Red. Prf. 94/6	8	......
¶¶	F.P.	—	107	104	Rea Bros. 8.6% Cav Prf	107	......
§105	£50	10/10	46	43	Smith New Court 12pc Uns. Ln. 2001‡‡	43	......
‡	Nil	—	5pm	3½pm	Utd Leasing 9½% Con Sub Uns Ln '98—2001	3½pm	−½
‖‖	F.P.	—	101¼	101½	VSEL Cons.11% Uns. Ln. 1996	101½	−¼
—	F.P.	—	110	107	Wight C'ns Cv. Cm. Rd. Prf. 1999 10p	110	+1
100	£50	12/9	50¼	46	Witan Inv. 8½% Deb 2016	47	......

"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
49	F.P.	29/8	85	66	Abaco Invs. 5p	73	+2
12	Nil	—	1¼pm	½pm	Barker & Dobson 1p	½pm	......
250	F.P.	12/9	280	243	Boase Massimi Pollitt 12½p	261	+3
170	Nil	2/9	23pm	16pm	Colorsll 10p.	21pm	......
145	Nil	20/8	40pm	21pm	Dataserv. Inc. 5c.	21pm	−5
130	F.P.	14/8	146	132	Erskine House	141	......
165	F.P.	28/8	185	168	Expamet Intl.	170	......
5	Nil	—	23pm	12pm	‡Hobson 5p	23pm	+5½
215	F.P.	15/8	278	225	Intl. Signal & Control 10c	247	+14
330	Nil	26/9	81pm	75pm	London United 20p.	81pm	+6
200	Nil	29/8	23pm	10pm	‡Meadow Farm Prod. 10p	10pm	−5
120	Nil	19/9	23pm	17pm	Medminster 10p	23pm	......
£14	Nil	12/9	245pm	220pm	Priest Marians £1	245pm	......
35	Nil	—	30pm	25pm	‡Rockwood 10p	25pm	−5
44	Nil	28/8	6pm	1½pm	‡Sheraton Secs. 10p	2½pm	+1
125	Nil	24/9	15pm	11pm	‡Tod 5p	15pm	......
90	Nil	12/9	2½pm	1pm	Top Value Inds. 10p	1pm	−1
38	F.P.	28/8	40½	37	‡Yelverton Invs. 5p	37	......
41	Nil	29/8	35pm	22pm	‡York Mount	22pm	−2

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

FT CROSSWORD PUZZLE No. 6090

PROTEUS

ACROSS

1 Come to grips with equipment (6)
4 Former pugilist a long time in the game (8)
9 Tincture applied to wounds air can ruin (6)
10 Ship having to bail out round Red Point (8)
12 She may hope to put fasteners round rest perhaps (8)
13 Dramatic scene with leading stoker on ship (6)
15 Suitable when about to bring forth (4)
16 Pairs-skating turning into a lofty hope (10)
19 Shakespearean costume selected for hill-climbing (6, 4)
20 Pole in dispute (4)
23 Complete agreement in world organisation on one issue (6)
25 Went and made good (8)
27 Giving minute particulars of document about dog (8)
28 Dramatist wanting help in erotic part (6)
29 Decide once more to put soldier on bench (8)
30 Annual value of current alimony (6)

DOWN

1 Passage about art isn't necessary (7)
2 Having assurance to trust wholly in book (9)
3 Insect found in tree (6)
5 That bird at the bar? (4)
6 Bird of ill-omen to one on trial (8)
7 Examination of accounts of car-team leader (5)
8 Near disaster when carrying article made of clay (7)
11 Wise man bearing letter of communication (7)
14 Strings of invective from one involved in deals (7)
17 Tense on being found faulty (9)
18 He was one of the first to stop having to sit around (8)
19 Rock with comparatively daring sound (7)
21 Bird getting Communist vote after this? (7)
22 Ill-will seen in African country-church (6)
24 Stroke happening in some terrific tussle (5)
26 Came a cropper on upland tract (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Abbey Unit Tst. Mngrs. (a)
80 Holdenhurst Rd, Bournemouth

Allied Dunbar Unit Trusts PLC (a)(g)
Allied Dunbar Centre, Swindon, SN1 1EL

Authority Wieler Unit Tst. Mgmt. Ltd

Arbuthnot Securities Ltd (a)(c)

Archway Unit Tst. Mgs. Ltd(a)(c)

Arkwright Management

Atlanta Unit Managers Ltd

Baillie Gifford & Co Ltd

Baltic Trust Managers Ltd

Barclays Unicorn Ltd(a)(c)(g)

Baring Fund Managers Ltd

Barrington Mgmt Co Ltd (z)

Bell Court Fund Mngt PLC

Bishopsgate Progressive Mgmt. Co

Brewin Dolphin Unit Tst Mngrs Ltd

Bridge Fund Managers (a)(c)

Britannia Unit Trust Managers Ltd. (a)(c)(g)

Brown Shipley & Co Ltd (a)(g)

Brycourt Unit Trust Mgmt Ltd(a)(c)(z)

Buckmaster Management Co Ltd (a) (c)

CS Fund Managers Limited

Canada Life Unit Trust Mngrs. Ltd

Cannon Fund Managers Ltd (a)

Capel (James) Mngt. Ltd

Cent. Bd. of Fin. of Church of England

Charities Official Invest. Fund

Chase Manhattan Fund Mngrs Ltd (a)

Clerical Medical Unit Trust Managers

Confederation Funds Mngt Ltd (a)

County Unit Trust Managers

Crown Unit Trust Services Ltd

Crusader Unit Trust Managers Ltd

Darlington Unit Trust Mngt. Ltd

Discretionary Unit Fund Managers

Dunedin Unit Tst Managers (a)

EBC Amro Unit Trust Mngmt Ltd

EFM Unit Trust Managers Ltd

Eagle Star Unit Managers Ltd

The English Trust Group PLC

Enterprise Fund Managers Ltd

Equitable Units Administration Ltd

Equity & Law Un. Tr. M. (a) (c)

Robert Fleming & Co Ltd

F & C Unit Management

FS Investment Managers Ltd

Fidelity Investment Services Ltd

Framlington Group (a)

Robert Fraser Trust Mgt. Ltd

Friends Prov. Trust Managers (a)(b)(c)

Funds in Court

G. & A. Trust (a) (g)

GT Unit Managers Ltd

Gartmore Fund Managers (a) (c) (g)

Global Asset Management

Govett (John) Unit Mngt. Ltd

Granville Unit Tst Mngmt Ltd

Gresham Unit Trust Managers

Grofund Managers Limited

Guardian Royal Ex. Unit Mngrs. Ltd (a)

Guild Management Limited

Guinness Mahon Unit Trust Managers Ltd

Hambro Generali Fund Managers Ltd (g)

Hambros Bank Unit Trust Managers Ltd (a)

Henderson Administration (a) (b) (c)

Heritable Unit Fund Managers Ltd

Hexagon Services Ltd

Hill Samuel Unit Tst. Mgrs.

IBI Fund Managers (g)

Key Fund Managers Ltd (a)(g)

Kleinwort Benson Unit Managers

LAS Unit Trust Managers Ltd

L & C Unit Trust Management Ltd

Laurentian Unit Tst Mngmt Ltd

Lawson Fund Managers Ltd (a) (c) (g)

Lazard Brothers & Co Ltd

Legal & General (Unit Tst. Mngrs.) Ltd

Leonine Administration Ltd

Lloyds Bk. Unit Tst. Mngrs. Ltd (a)

Local Authorities' Mutual Invest. Tst.

London & Manchester (Tst Mgmt) Ltd

London Law Unit Trust Mngt. Ltd

M & G Group (y)(c)(z)

MGM Unit Managers Ltd

MLA Unit Trust Management

ManuLife Management Ltd

Mayflower Management Co Ltd

Mencap Unit Trust Mngrs Ltd (a)(c)(g)

Mercury Fund Managers Ltd

Midland Bank Group UT Mngrs. Ltd

MIM Unit Tst Mngrs Ltd (a)

Minster Fund Managers Ltd

Murray Johnstone UT Mgmt. (a)

NFU Mutual Unit Managers Ltd

National Provident Inv Mgrs Ltd

Norwich Unit Trust Managers

Octavian Unit Trust Mngrs Ltd

Oppenheimer Fund Mngt Ltd

Orion Royal Bk Tst. Mngrs. Ltd.

Pearl Trust Managers Ltd (a)(g)

Perpetual Unit Trust Mngmt. (a)

Prolific Unit Trusts

Providence Capital Fd. Mgrs. Ltd

Provident Mutual Unit Trust Managers Ltd

Prudential Unit Trust Mngrs Ltd (a) (b) (c)

Quilter Management Co Ltd

Reed Stenhouse Inv Services Ltd

Reliance Unit Mgrs. Ltd

N.M. Rothschild Asset Management

Rowan Unit Trust Mngmt Ltd

Royal Life Fd. Mgmt. Ltd

Royal London Unit Tst Mgrs Ltd

Royal Trust Can. Fd. Mgt. Ltd

SKC Management Limited

Save & Prosper Group

Schroder Unit Trust Managers Ltd

Scimitar Asset Management Ltd

Scottish Equitable Fund Mgrs. Ltd

Scottish Life Investments

Scottish Mutual Investment Managers Ltd

Scottish Provident Inv. Mgt. Ltd

Scottish Unit Managers

Scottish Widows' Fund Management

Sentinel Funds Mngmnt Ltd

Standard Life Trust Mngmt. Ltd

Stewart Ivory Unit Trust Mgrs Ltd (a)

Sun Alliance Fund Management Ltd

Sun Life Trust Mngmt. Ltd

Swiss Life Pen. Tst. Man. Co Ltd (a)(c)

TSB Unit Trusts (b) (c) (y)

3i Unit Trust Managers Ltd (a)

Target Trust Mngrs. Ltd (a)(g)

Templeton Investment Management

Thornton Unit Managers Ltd

Touche, Remnant Unit Trust Mngt Ltd

Trades Union Unit Trust Managers

Transatlantic and Gen. Secs. (c) (y)

Triton Fd Mngrs. Ltd.

Tyndall Managers Ltd(a)(b)(c)

UK Provident Unit Trust Managers Ltd

Unit Trust Account & Mgmt. Ltd

Vanguard Trust Managers Ltd

AUTHORISED UNIT TRUSTS & INSURANCES

Wardley Unit Trust Managers Ltd (a)
Wardley House, 7 Devonshire Sq, EC2 01-929 1532

American Tst.	62.6	67.4	-0.2	1.7
Far East & Gn. Tst.	103.1	109.7	-0.5	0.9
Intl. Growth Tst.	69.2	73.7	+0.3	0.7
Income Tst.	82.3	88.5	-0.3	5.6
Japan Growth Tst.	124.1	13.5	-1.4	0.2
Small Cos. Tst.	108.9	117.1	-0.9	2.0
Technlgy.Tst.	33.1	35.5		0.2
Australia Trust	35.1	37.7	+0.9	2.1
UK Trust	127.1	135.3	+1.6	2.7
European Growth Tst.	51.9	55.3	+0.4	1.1
Hong Kong Tst.	23.1	24.6	+0.2	1.6

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	16.8	17.9	+0.7	0.15
Pacific Basin	12.7	13.5	+0.1	0.2
Canadian Balncd Grwth	56.4	60.3	+0.2	0.98
Ginnie Mae	101.4	105.6	+0.3	7.2

WestAvon Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS 0272 428431

British Smllr Co's (z)	55.8	57.4	-0.6	1.50
British Growth (z)	65.9	67.8	-0.1	2.00
British Income (z)	64.3	66.1	-0.1	5.00
British Extra Yield(z)	50.8	52.5	+0.1	7.00

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dtd Gilt Fd	67.5	68.4	-0.1	0.00
U.S. Govmt Bond F	50.507	0.509		—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Capital & Equity Tst.	47.5	50.6	—	7.84
Growth Trust	50.0	53.2	+0.1	2.29
Income Trust	52.5	55.9	—	5.24

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY 01-588 0592

Growth Fund	67.1	70.6		2.97

Weekly dealing day Tuesday

The Yorkshire General Trust

INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

114 Newgate St, London EC1A 7AE. 01-606 9485
High Int Cheque Acc ... 11.00 8.23 ... Qtr.

NOTES—Gross. rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ø Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◊ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	30	NEI	11
Amstrad	23	Nat West Bk.	48
BAT	35	P & O Dfd.	45
BOC Grp	28	Plessey	18
BSR	11	Polly Peck	16
BTR	28	Racal Elect	16
Babcock	17	RHM	20
Barclays	45	Rank Org Ord	45
Beecham	40	Reed Intnl	75
Blue Circle	55	STC	16
Boots	22	Sears	12
Bowaters	30	TI	42
Brit Aerospace	45	Tesco	32
Brit. Telecom	17	Thorn EMI	40
Burton Ord	28	Trust Houses	15
Cadburys	17	Turner Newall	18
Charter Cons.	22	Unilever	120
Comm Union	28	Vickers	40
Courtaulds	26	Wellcome	17
FNFC	17	**Property**	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs	30
Glaxo	85	MEPC	32
Grand Met	34	Peachey	24
GUS 'A'	85	Samuel Props	25
Guardian	75	**Oils**	
GKN	32	Brit. Oil & Min.	2½
Hanson Tst.	16	Brit Petroleum	48
Hawker Sidd	48	Burmah Oil	30
ICI	55	Charterhall	4
Jaguar	38	Premier	3½
Ladbroke	32	Shell	55
Legal & Gen	24	Tricentrol	11
Lex Service	28	Ultramar	18
Lloyds Bank	38	**Mines**	
Lucas Inds	52	Cons Gold	40
Marks & Spencer	18	Lonrho	24
Midland Bk.	44	Rio T Zinc	50
Morgan Grenfell	30		

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
29 Apr	29 Oct	Exch. 14pc 1986	100¾	24.3	13.88	9.76
21 May	21 Nov	Exch 2½pc 1986	98[illegible]	14.4	2.51	6.93
22Jul	22Jan	Exch. 13¼pc 1987	101½	16.6	13.05	9.74
10 Aug	10 Feb	Treas. 10¼pcCv '87	100[illegible] xd	4.7	10.23	9.81
24Aug	24Feb	Exch 2½pc 1987	97[illegible] xd	28.7	2.56	6.90
6Oct	6Apr	Exch. 10½pc 1987	100¼	3.3	10.45	9.82
1 Nov	1 May	Funding 6½pc '85-87‡‡	98[illegible]	25.3	6.61	8.85
12Dec	12Jne	Treas. 10pc 1987	100[illegible]	5.5	9.98	9.71
14Jan	14Jly	Treas 3pc 1987	96¼	30.6	3.11	7.03
3May	3Nov	Treas. 12pc 1987	102[illegible]	28.3	11.71	9.78
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	98[illegible]	19.6	7.90	9.15
10Nov	10May	Exch 10½pc '88	101¼	3.4	10.38	9.76
14Dec	14Jne	Treas 9¾pc Cv '88	100	8.5	9.75	9.72
1Jan	1Jul	Transport 3pc '78-88	92[illegible]	27.5	3.23	7.01
25 Apr	25 Oct	Treas. 9½pc '88	99[illegible]	19.3	9.54	9.69
22 Aug	22 Feb	Treas 11½pc 1989	104[illegible] xd	16.7	11.05	9.66
18 Oct	18 Apr	Treas 9½pc Cnv. '89	99[illegible]	12.3	9.53	9.61
15Nov	15May	Treas 3pc 1989	89¾	8.4	3.35	7.12
14Dec	14Jun	Treas 10½pc 1989	102¼	8.5	10.28	9.61
1Feb	1Aug	Exch 10pc 1989	100[illegible]	25.6	9.91	9.65
29 Mar	29 Sep	Exch 11pc 1989	103¾	20.2	10.60	9.56
15 Apr	15 Oct	Treas 5pc 1986-89	91½	10.3	5.46	8.05
15 May	15 Nov	Exch 10¼pcCv '89	105¼	8.4	9.72	8.31
25 Jul	25 Jan	Treas 13pc 1990‡‡	110[illegible]	9.6	11.80	9.42

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

MINES—Continued

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		♦Musto Explorations	174	—	—	—	—
—		♦New Sabina Res C$1	31½	—	—	—	—
—		Northgate C$1	230	9/77	—	—	—
Jan.	July	RTZ	539	12.5	22.0	2.8	5.7
Jan	July	Do. 9⅛pcLn '95-2000	£119	12.5	Q9⅛%	15.5	17.8

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◇ Figures or report awaited.
- ♥ Not officially UK listed, dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ø Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim, reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¥ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend, cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Albany Inv 20p	60	..
Craig & Rose £1	£11	..
Finlay Pkg. 5p	42	..
Holt (Jos) 25p	805	..
IoM Stm. £1	86	..

IRISH

Fund 11¼% 1988	£100¼	−½
Nat 9¾% 84/89	£98⅛	
Fin 13% 97/02	£111⅝	−⅜
Arnotts	315	−5
CPI Hldgs	45	....
Carroll Inds.	150	−2
Dublin Gas	53	....
Hall (R & H)	70	..
Heiton Hldgs.	29½	
Irish Ropes	95	..
Unidare	205	..

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CONSTRUCTION CONTRACTS

New Crown Courts for Derby

R. M. DOUGLAS CONSTRUCTION has received orders for £13.2m construction contracts. Work has started on the £5.5m Derby Crown Courts for the Property Services Agency, scheduled for completion in 22 months. The City of Birmingham has awarded a £580,000 design and build contract for industrial units at the Woodgate Business Park. Protea Commercial Properties has awarded a £780,000 design and build contract for a factory unit at the Tingewick Road Industrial Estate in Buckingham. An order of £380,000 for concrete storage bunkers at English China Clay's quarry at Croft in Leicester is under construction. Site works will soon start on a design and construct contract of £1.9m for the London Borough of Ealing's first and junior school at Hayes Bridge. Orders worth £1.25m have been received in South Wales for building a grandstand and changing rooms at Eugene Cross Park in Ebbw Vale, a factory in Ynyscedwn for Apex Packaging, and a fitting-out contract for Texas Homecare in Swansea.

Sunderland to have ASDA superstore

ASDA has awarded a £4m contract to WIMPEY CONSTRUCTION UK for a new ASDA superstore to be constructed at Sunderland, Tyne & Wear. The Sunderland development will total some 8,082 sq metres and comprise a superstore with 4,087 sq metres single-level sales area, with office and staff accommodation at first-floor level. The store will be of steel frame construction in faced brick-work beneath a pitched, tiled, mansard-style roof. Due to the local ground conditions the building is supported on 360 piles with strengthened ground beams. The ground level car park provides 546 spaces. When completed in September, the superstore is expected to create 450 jobs locally.

Theatre to be built in Basildon

WIMPEY CONSTRUCTION MANAGEMENT has been awarded a £6.26m management contract by Basildon District Council for the development of a theatre complex in Basildon, Essex. To be known as the Towngate Theatre, it is to be built on the site of a car park. The theatre will be a two-storey structure, but with different roof levels at 6.6-12 metres and a structural steel fly tower 22 metres high. The development, due for completion February 1988, is intended to cater for touring productions of all forms and the theatre will feature a 550-seat multi-purpose main auditorium linked by the foyer system to a studio seating up to 200. Administration areas, bars and back stage accommodation are included, together with lifts, air conditioning and theatre equipment.

*

JOHN BROWN has been awarded a contract from May & Baker for a new pharmaceutical chemicals plant at its Dagenham site. The design and construct contract, worth about £10m, is due for completion early in 1987.

Crown House gains £27m

CROWN HOUSE ENGINEERING has won 21 contracts across the UK for mechanical and electrical services with a total value of over £27m. Contracts for the commercial / industrial sector total £19m and include £3.75m worth of mechanical services for NEC at Livingston (Scotland) and a £5.9m mechanical and electrical services contract as part of the refurbishment of the Old Billingsgate Market in London. Orders include five hospital contracts (£6m) and a further three for the public sector valued at £2.2m.

*

Two contracts worth more than £8m have been awarded to JAMES SCOTT, mechanical and electrical services, for work at defence establishments. At £7½m, the major project involves heating, ventilating, lighting, electrical services and fuel storage in 21 hardened aircraft shelters, which ARC Construction is building for the Property Services Agency at RAF Leeming in North Yorkshire. The project is scheduled for completion in May 1988. The other contract is for the Army garrison at Tidworth, where James Scott is to install heating, ventilating, compressed air and exhaust extraction systems in motor transport buildings. Work is due to start in early 1987 with completion programmed for late in the same year. The main contractor is Rush and Tompkins (South West).

*

Following the completion of a detailed front end study, MATTHEW HALL NORCAIN ENGINEERING, Southampton, has been awarded a £6m contract for project management, engineering design, procurement and construction of ophthalmic and sterile facilities for The Boots Co at Beeston. The project consists of ophthalmic and sterile production, manufacturing, preparation, warehousing and packing areas. Associated plant rooms are located at mezzanine level, containing HVAC equipment and at ground level, process plant, vessels, pumps, distillation plant and process support services. Construction is expected to be completed in the latter part of 1987.

Hi-tech office complex in Reading

J. M. JONES & SONS has won a £4m contract to develop a hi-tech office complex at Gillette Way, Reading. The project, on a 4.2-acre site, will provide about 9,000 sq metres floor space. The two-storey technology unit will be built with a fully fitted first floor and the ground floor completed to shell and core, enabling tenants to design their own standards of finish. Car parking for 384 cars will be available. The client is Beacontree Estates. The company has a £2m contract to develop an office block at 47-78, Brighton Road, Redhill. The project provides about 3,035 sq metres. The four-storey brick-clad building will be built on piled foundations with a reinforced concrete post tensioned frame. There will be car parking for 72. The client is Interland Estates. The final order is for £1.25m to refurbish and re-develop an office block at 1 London Road, Slough, also for Beacontree Estates.

*

WILLIAM SAPCOTE AND SONS has won nine contracts in the west Midlands totalling more than £7m. They include a £2m improvement scheme at the Barber Institute of Fine Arts. The contract involves a mechanical installation to provide controlled environmental conditions throughout the building and an extensive roof structure to house the equipment. Scottish Widows Fund is having work worth £1.7m undertaken at its Edmund Street property. It includes a new office building (160-168 Edmund Street) and restoration of listed building on the corner of Church Street.

*

Under a £6.77m design and build contract, Sir Robert McAlpine & Sons has started work on the Westbrook Centre, an office development/research centre in Cambridge, for Trafford Park Estates. On a 160 metre by 100 metre site next to Cambridge City Football Ground, the centre will have three adjoining three-storey blocks of concrete frame construction. Work includes installation of five lifts. The centre will have a total floor area of 14,800 sq metres.

Headquarters in Cambridge for RAF

CONDER PROJECTS SOUTHERN has been awarded its largest ever PSA contract (£6m) for offices for headquarters, Royal Air Force Support Command, Brampton, Cambridge. The previous building was destroyed by fire in October 1985. The develop and construct contract awarded required Conder to complete the work in 78 weeks. The building is of three storeys with a floor area of 9,900 sq metres arranged around two central courtyards with an additional wing containing a conference suite.

OVERSEAS

Store columns for stability

GKN KELLER has won a £3.7m contract with Cologne traffic department for vibro-compaction of an eight hectare tram yard site in Cologne, West Germany. It is believed to be the largest vibro-compaction contract currently underway in the world. The 15-month project involves installing 20,000 columns of stone in the ground to increase its shear strength and bearing capacity. The site was formerly a rubbish tip and consists of loose filled organic household waste up to a depth of 19 metres.

*

TAYLOR WOODROW CONSTRUCTION CORPORATION, New York, has been awarded two contracts, worth a total of $5.3m (£3.5m), for work in Canada and the US. The larger order, valued at $3m, has been placed by Monarch Construction, another member of the Taylor Woodrow Group, for the construction management of a new 462-bay parking garage adjacent to its Heron's Hill office development in Willowdale, Ontario, Canada. The other contract, worth $2.3m, is for renovations to two buildings at the Acton Boxborough Teaching Facility in Massachusetts.

INTERNATIONAL APPOINTMENTS

French groups due for privatisation name chiefs

BY PAUL BETTS IN PARIS

TWO NEW managing directors have been appointed to two of France's major nationalised groups due to be privatised by the French conservative government.

Mr Jacques Henri David has been appointed as managing director of Saint Gobain, the glass and pipes group which is a prime target for early privatisation, while Mr Jean-Paul Delacour has become the managing director of Societe Generale, the country's largest commercial bank.

Mr David was finance director of Saint Gobain. He joined the glass and pipes group with annual sales of about FFr 75bn in 1984. He previously worked at the Banque de France and was a close collaborator between 1979 and 1981 of Mr Rene Monory, the new French education minister when he was minister of finance and economy.

Mr David will be number two at Saint Gobain behind Mr Jean-Louis Beffa, the chairman who was reconfirmed in his post by the conservative government of Mr Jacques Chirac last week.

The appointment of Mr Delacour as managing director and number two of Societe Generale follows the nomination by the government last week of Mr Marc Vienot, the former managing director, as chairman of the large state bank. Mr Vienot replaced Mr Jacques Mayoux as chairman of Societe Generale.

Mr Delacour has worked for Societe Generale since 1968 and was a deputy managing director of the bank.

Changes are also taking place at Renault, the large state-owned car group, where Mr Guy Bergeaud has been appointed the new head of Renault's large French commercial and marketing operations. He replaces Mr Hubert d'Artemare who has decided to leave the car group.

Mr Bergeaud has been in charge of Renault UK for the past two years. Before joining Renault, he worked at Volkswagen and previously at Ford.

Former minister to head Venezuelan central bank

BY JOSEPH MANN IN CARACAS

MR HERNAN ANZOLA JIMENEZ, formerly Minister for State Companies, has been appointed as president of the Central Bank of Venezuela.

Mr Anzola, who also served the current administration as Vice Minister of Energy and Mines and a board member at the Central Bank, replaces Mr Benito Raul Losada, who has been president of the bank since the current government took office in early 1984.

Mr Anzola is viewed here as one of the brightest and most experienced members of the administration. His appointment to the post, which runs for a five-year period, was made by President Jaime Lusinchi.

This change does not signal any problems or major policy shifts at the Central Bank. Mr Losada, a former Minister of Finance, who held the central bank presidency during the 1970s, received high praise from bankers here for his work at the institution, where he followed a conservative monetary policy that helped keep inflation under control and maintained monetary growth within strict limits.

Mr Losada's term turned out to be less than the normal five-year period since he was appointed by President Lusinchi in 1984 to replace Mr Leopoldo Diaz Bruzual, the head of the institution at that time.

Mr Bruzual, a highly controversial figure who once suggested that Venezuelans move their money abroad, was unacceptable to the present government and was viewed as unstable by the international banking community.

Swiss bank completes reshuffle

MR ADOLF BRAENDLE, deputy general manager of Bank Leu, based in Zurich, has been appointed board chairman of its Bahamas subsidiary, Bank Leu International.

This follows the Nassau bank's involvement in alleged insider dealing by Mr Dennis Levine, formerly a leading executive of Drexel Burnham Lambert, the Wall Street investment house.

The Zurich parent bank has now completely changed the Bahamas subsidiary's management and board. Mr Braendle takes over the chairman's post from Mr Hans Knopfli, who remains management chairman of Bank Leu in Switzerland.

MARINE MIDLAND BANKS, the New York Bank owned 51 per cent by Hongkong and Shanghai Banking Corporation, of Hong Kong, has appointed Mr Geoffrey A. Thompson president and chief operating officer from the end of the year. Mr Thompson is currently head of consumer and commercial banking, a post he retains. He has also been elected to the board.

Mr Thompson is Marine Midland's first president since 1983, when Mr John R. Pretty moved up to the posts he now holds of chairman and chief executive.

SIR ROBERT COTTON, former Ambassador of Australia to the US, has been appointed to the board of Hill and Knowlton, the international public relations concern, which is part of the JWT Group of the US.

WORLD STOCK MARKETS

AUSTRIA

1986 High	Low	August 1	Price Sch
2,650	2,190	Credit'nst'lt pp	2,230
3,850	3,075	Goesser	3,300
16,000	12,650	Interunfall	15,100
21,750	16,800	Jungbunzlauer	16,800
2,475	1,950	Laenderbank	2,230
795	550	Perlmooser	590
211	150	Steyr Daimler	161
12,500	8,850	Veitscher Mag	10,950

BELGIUM/LUXEMBOURG

1986 High	Low	August 1	Price Frs.
3,500	2,299	B.B.L.	3,025
15,650	9,600	Banq. Gen. Lux.	15,500
17,000	9,400	Banq. Int.A.Lux.	15,000
14,500	8,250	Bekaert	11,350
4,650	2,640	Ciment CBR	3,870
195	120	Cockerill	124
3,240	1,662	Delhaize	2,800
4,840	3,580	EBES	4,545
17,350	10,425	Electrobel	14,925
2,700	1,970	Fabrique Nat.	2,090
7,760	3,580	GB Innc BM	7,340
4,625	2,695	GBL (Brux)	3,030
6,800	4,310	Generale Bank	5,840
6,850	4,750	Gevaert	5,690
8,150	6,700	Hoboken	7,390
3,995	2,880	Intercom	3,600
17,500	10,100	Kredietbank	15,600
11,650	9,900	Pan Holding	11,100
8,790	6,050	Petrofina	8,560
27,000	17,200	Royale Belge	26,000
3,270	2,120	Soc. Gen. Belge	2,945
11,600	7,710	Sofina	9,570
8,920	6,050	Solvay	7,010
685	244	Stanwick Intl.	250
6,340	4,675	Tractionel	5,440
8,330	5,300	UCB	7,890
6,200	3,705	Wagons Lits	5,370

DENMARK

1986 High	Low	August 1	Price Knr. %
424	310	Andelsbanken	310
670	515	Baltica Skand.	530
348	249	Cop Handelsb'nk	249
470	318	D. Sukkerfab	321
381	272	Danske Bank	272
1,860	1,320	De Danske Luft.	1,330
298	186	East Asiatic	186
[illegible]	[illegible]	[illegible]	[illegible]

FRANCE

SOUTH AFRICA

GERMANY

NETHERLANDS

SWEDEN

SWITZERLAND

AUSTRALIA

ITALY

HONG KONG

NORWAY

SINGAPORE

JAPAN

SPAIN

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO

Prices at 2.30pm August 1

MONTREAL

Closing prices August 1

Total Sales 2,778,718 shares

OVER-THE-COUNTER

Nasdaq national market, closing prices, August 1

Continued from Page 29

NEW YORK

Indices

CANADA

NEW YORK ACTIVE STOCKS

Closing prices, August 1

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	13½	AAR s	.44	2.1	18	448	20¾	20⅛	20⅝	−⅛
30	21¾	ADT	.92	3.9		375	24⅛	23½	23½	+⅛
33	11½	AFG s	.08e	.3	16	415	29⅞	29¼	29¼	−½
25⅜	13¾	AGS			12	61	17⅝	17½	17½	
60⅝	37½	AMR			13	2484	52¼	51⅜	51½	
27½	23¼	ANR pf2.67		10		3	25⅝	25⅝	25⅝	−⅛
24	19¼	ANR pf2.12		9.4		2	22⅝	22⅝	22⅝	−⅜
12½	8½	APL			6	6	11½	11⅜	11⅜	
16¾	10¾	ARX	.71t	6.9	9	160	11⅛	d10¼	10¼	−½
48⅛	28¾	ASA	2a	6.3		651	32¼	31	31½	−¼
18⅜	10	AVX		3.0		303	11⅜	10½	10½	−½
32	22⅝	AZP	2.72	9.7	8	2763	28⅛	27½	28	−½
55	26⅜	AbtLb s	.84	1.6	24	4584	52	50¼	51½	+1¼
32	19⅝	AccoWd .56		2.1	50	200	26¾	26½	26⅝	+⅜
16¼	9⅛	AcmeC	.40	4.2		270	9⅝	9⅜	9⅝	−⅛
9¼	7	AcmeE	.32b	4.1	19	5	7⅞	7¾	7⅞	+⅛
21	17	AdaEx	1.90e	9.2		82	20¾	20⅝	20⅝	
33⅜	16	AdmMl	.40	1.3	14	183	31	30¾	30¾	
20⅜	11¼	AdvSys	.83t	5.2	15	32	16	16	16	
32⅞	14⅛	AMD				2908	16⅛	15¼	15½	−¼
12⅝	5⅝	Adobe n				41	6	5¾	6	+⅛
18⅜	13¾	Adob pf1.84		13.		164	14¼	13⅞	14¼	+½
20¼	15¼	Adob pf2.40		14.		95	16⅞	16¾	16¾	
18⅜	7⅜	Advest	.12a	.8	11	623	15⅝	14⅞	15	−⅜
66⅞	42¼	AetnLf	2.64	4.4	10	1538	60	59⅜	59⅜	−⅝
57½	51½	AetL pf4.28e		8.1		2	52⅞	52⅞	52⅞	+⅜
101½	94	AetL pfC3.31e		3.6		2	93	d93	93	−1
28¾	9¾	Ahmns s	.46	1.8	8	3930	26½	25½	26⅛	+½
5¾	2½	Aileen			95	34	4¾	4⅝	4¾	
[illegible]										

Continued on Page 29

هكذا من الأصل

NYSE COMPOSITE CLOSING PRICES

Continued from Page 28

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
$23\frac{3}{8}$	$9\frac{3}{4}$	Shawint .48		2.2	13	78	$18\frac{3}{8}$	$18\frac{1}{8}$	$18\frac{1}{8}$	$-\frac{3}{8}$
$49\frac{1}{2}$	$35\frac{1}{2}$	ShellT 2.90e		6.1	9	2270	48	$47\frac{1}{2}$	$47\frac{3}{4}$	$+\frac{1}{4}$
$32\frac{1}{4}$	$16\frac{5}{8}$	Shrwins .50		2.0	15	518	$25\frac{7}{8}$	$25\frac{1}{4}$	$25\frac{3}{8}$	$-\frac{1}{2}$
12	$6\frac{3}{8}$	Shoetwn			10	421	$7\frac{7}{8}$	$7\frac{1}{4}$	$7\frac{1}{4}$	$-\frac{1}{4}$
$22\frac{3}{4}$	12	Showbt .60		3.8	14	116	$16\frac{1}{8}$	$15\frac{3}{4}$	$15\frac{3}{4}$	$-\frac{3}{8}$
$25\frac{3}{4}$	17	SierPac .72		6.8	14	182	$25\frac{3}{8}$	$25\frac{1}{4}$	$25\frac{3}{8}$	$+\frac{1}{4}$
$38\frac{1}{2}$	$23\frac{3}{4}$	Signet 1.24		3.6	10	216	$34\frac{3}{4}$	$34\frac{1}{2}$	$34\frac{1}{2}$	$-\frac{1}{4}$
$56\frac{1}{8}$	$37\frac{3}{8}$	USX pf4.80e		13.		54	$37\frac{1}{2}$	d37	37	$-\frac{1}{2}$
93	$24\frac{1}{4}$	USX pf 2.25		9.7		703	$24\frac{5}{8}$	d23	$23\frac{1}{4}$	$-1\frac{1}{8}$
$1\frac{3}{8}$	$\frac{1}{2}$	USX wt				142	11-16	$\frac{5}{8}$	11-16	+ 1-16
$32\frac{3}{8}$	14	UniFrst .20		.7	18	15	$28\frac{1}{2}$	$28\frac{1}{8}$	$28\frac{1}{8}$	$-\frac{1}{2}$
$112\frac{1}{2}$	$53\frac{1}{2}$	Unilvr 3e		2.9	15	4	$102\frac{3}{4}$	$102\frac{3}{4}$	$102\frac{3}{4}$	$+\frac{1}{4}$
$205\frac{3}{4}$	$102\frac{1}{2}$	UnNV 5.66e		2.7	18	318	u$210\frac{3}{4}$	$207\frac{1}{4}$	$209\frac{1}{4}$	+4
$54\frac{1}{2}$	$33\frac{3}{4}$	UCamp f.64		3.5	25	1135	$47\frac{1}{4}$	$46\frac{1}{4}$	$46\frac{1}{4}$	$-\frac{5}{8}$
$72\frac{1}{4}$	$45\frac{3}{4}$	Xerox	3	5.7	16	2363	$53\frac{3}{8}$	$52\frac{7}{8}$	53	$-\frac{1}{4}$
$58\frac{1}{4}$	$53\frac{1}{2}$	Xerox pf	5.45	9.6		112	$56\frac{7}{8}$	$56\frac{3}{4}$	$56\frac{3}{4}$	$+\frac{1}{8}$
$28\frac{3}{4}$	$20\frac{5}{8}$	XTRA	.64	2.9		39	$22\frac{1}{4}$	$22\frac{1}{8}$	$22\frac{1}{4}$	$-\frac{1}{8}$
$17\frac{5}{8}$	$13\frac{1}{2}$	Yorkin n				218	$15\frac{3}{4}$	$15\frac{1}{2}$	$15\frac{3}{4}$	$-\frac{1}{8}$
39	$26\frac{1}{4}$	ZaleCp	1.40	4.1		82	$34\frac{1}{4}$	34	$34\frac{1}{8}$	
$10\frac{1}{8}$	$3\frac{1}{2}$	Zapata	.03j			126	$3\frac{7}{8}$	$3\frac{3}{4}$	$3\frac{3}{4}$	$+\frac{1}{8}$
$43\frac{7}{8}$	$23\frac{7}{8}$	Zayre s	.32	1.0	20	x2366	34	$31\frac{5}{8}$	32	$-2\frac{1}{4}$
17	$11\frac{1}{4}$	Zemex	.40	3.5	12	1	$11\frac{3}{8}$	$11\frac{3}{8}$	$11\frac{3}{8}$	$+\frac{1}{8}$
$29\frac{7}{8}$	$16\frac{1}{4}$	ZenithE				747	$22\frac{3}{4}$	22	$22\frac{3}{4}$	$+\frac{1}{2}$
$18\frac{1}{4}$	$6\frac{5}{8}$	ZenLb s			14	2117	$10\frac{3}{4}$	$10\frac{3}{8}$	$10\frac{1}{2}$	
$22\frac{3}{8}$	$14\frac{7}{8}$	Zero s	.29	1.9	15	283	$15\frac{1}{4}$	$14\frac{5}{8}$	$15\frac{1}{8}$	$+\frac{1}{4}$
$45\frac{3}{4}$	$32\frac{3}{4}$	Zurnin	1.32	3.8	13	452	$35\frac{1}{2}$	$33\frac{7}{8}$	35	$+1\frac{1}{8}$

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices August 1

OVER-THE-COUNTER

Nasdaq national market, closing prices, August 1

Continued on Page 27

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

The English connection

BY COLIN MILLHAM

IT WAS probably coincidental that a group of only loosely connected currencies came under pressure last week but it will be remembered as an uncomfortable period for many of the currencies of the English speaking world.

The US dollar fell to new lows; sterling touched a record low against the D-Mark; the Australian and New Zealand dollars came under pressure; and the South African rand suffered from expectations of economic sanctions.

The US dollar fell to the lowest level since March 1981 against the D-Mark; to a record low against the yen; to the lowest since October 1980 in terms of the Swiss franc; and approached a five-year low against the French franc.

A combination of comments by US officials and weak economic data depressed the dollar. Mr Paul Volcker, chairman of the Federal Reserve Board ,stressed the importance of improving the US trade balance, in giving testimony before a Congressional committee. He said nothing to reverse the dollar's downward slide, while Mr George Shultz, US Secretary of State, made the comment that there was room for a further decline of the dollar.

Last week's figures on international trade provided a stark contrast between the performance of the US on one side and Japan and West Germany on the other. The US deficit has shown no sign of improving after nearly a year of steady dollar depreciation. The June shortfall of $14.17bn was little different from May. On the other hand Japan produced a trade surplus for the same month of $7.81bn and West Germany had a June surplus of $4.7bn.

Sterling moved down with the dollar, and the pound's stability against the US currency prevented any panic in London's financial markets. Threats of an African boycott against Britain, and the rift between most of the Commonwealth and the UK over sanctions against South Africa, added to sterling's nervous undertone. Mrs Thatcher's position as Prime Minister was the subject of some discussion early in the week, but the main reason for the pound's slide to a record low against the D-Mark was speculation that oil could fall to $5 a barrel. Opec ministers talked all week in Geneva about oil production quota cuts, but did not seem to have found a satisfactory formula.

Japanese institutional investors were reported to be heavy sellers of the Australian dollar last week. This kept downward pressure on the currency in spite of attempts by the Government in Canberra to reverse the trend, and a sharp rise in interest rates. The Australian dollar fell to a record low of 57.15 US cents on Monday but recovered to above 61 cents after intervention by the Australian Reserve Bank and after government moves to relax foreign investment rules and the scrapping of regulations imposing a withholding tax on interest paid by Australian borrowers on foreign markets. The Reserve Bank raised its rediscount rate to 16 per cent from 14.6 per cent, but the respite for the Australian currency was temporary. Japanese sources continued to sell, and on Friday the rediscount rate was increased to 18 per cent, after the Australian dollar had fallen to almost 59 US cents.

In Wellington the New Zealand Government's Budget for 1986-87 was generally as expected and fairly well received, but with inflation still high at 10 per cent, although cut from 17 per cent, the New Zealand dollar showed little reaction and remained weak.

£ IN NEW YORK

Aug 1	Close	Prev. close
Spot	$1.4770-1.4780	$1.4935-1.4964
1 month	0.45-0.43 pm	0.44-0.43 pm
3 months	1.30-1.27 pm	1.27-1.25 pm
12 months	4.58-4.48 pm	4.45-4.38 pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

August 1	Bank of England Index	Morgan Guaranty Change %
Sterling	71.7	−20.8
U.S. Dollar	111.2	+2.4
Canadian Dollar	78.0	−12.4
Austrian Schilling	129.8	+7.8
Belgian Franc	95.9	−6.9
Danish Kroner	87.3	−0.3
Deutsche Mark	138.3	+17.1
Swiss Franc	168.1	+23.0
Guilder	128.3	+11.3
French Franc	69.4	−13.7
Lire	47.3	−16.3
Yen	219.1	+62.7

Morgan Guaranty changes: average 1980-1982=100. Bank of England index (base average 1975=100).

OTHER CURRENCIES

Aug. 1	£	$
Arg'tina	1.3660-1.3670	0.9200-0.9210
Aus'ala	2.4585-2.4620	1.6505-1.6525
Brazil	20.42-20.54	13.77-13.84
Finland	7.4265-7.4460	4.9900-4.9950
Greece	200.40-203.98	134.32-136.68
H'kong	11.6585-11.6486	7.8055-7.8075
Iran	115.10*	77.15*
Kuwait	0.46155-0.43200	0.28945-0.28965
Lux'burg	64.05-64.15	43.10-43.20
Malaysia	3.9190-3.9265	2.6275-2.6325
N'Z'land	2.8606-2.8660	1.9215-1.9270
Saudi Ar.	5.5945-5.6000	3.7526-3.7535
Sin'pore	3.2390-3.2445	2.1725-2.1745
S.Af. (Cm)	3.7205-3.7510	2.5045-2.5110
S.Af. (Fn)	7.5470-7.9495	5.0635-5.3335
U.A.E.	5.4765-5.4810	3.6725-3.6735

* Selling rate.

CURRENCY RATES

Aug. 1	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	1.2064	0.680270
US $	6	0.80920	1.01564
Canadian $	8.63	*	1.40006
Austria Sch	4	NA	14.8589
Belgian Fr	8	52.0210	43.7488
Danish Kr	7	9.5013	7.98041
D'mark	3½	2.6133	2.11874
Guilder	4½	NA	2.38189
French Fr	9½	8.1646	6.87133
Lira	12	NA	1451.10
Yen	3½	185.78	155.749
Norway Kr	8	NA	7.49546
Span'h Pta	—	NA	137.315
Swedish Kr	8	NA	7.08618
Swiss Fr	4	NA	1.69165
Greek Drch	20½	NA	137.254
Irish Punt	—	NA	0.714487

* C$/SDR rate for July 31: 1.66028.

POUND SPOT—FORWARD AGAINST POUND

Aug 1	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4815-1.4935	1.4850-1.4860	0.46-0.43c pm	3.59	1.30-1.25 pm	3.43
Canada	2.0480-2.0590	2.0480-2.0490	0.30-0.20c pm	1.46	0.73-0.58 pm	1.28
Nethlnd.	3.47¾-3.51¼	3.48½-3.49½	1⅛-1⅛c pm	4.30	3⅞-3⅝ pm	4.30
Belgium	64.03-64.94	64.05-64.15	18-13c pm	2.50	46-37 pm	2.59
Denmark	11.63¾-11.74½	11.69¾-11.70¾	1⅞-⅝ore pm	1.28	4¼-3⅝ pm	1.39
Ireland	1.0500-1.0555	1.0510-1.0520	par-0.10c dis	−0.57	0.10-0.30dis	−0.76

DOLLAR SPOT—FORWARD AGAINST DOLLAR

Aug 1	Day's spread	Close	One month
UK†	1.4815-1.4935	1.4850-1.4860	0.46-0.43c
Ireland†	1.4110-1.4225	1.4175-1.4185	0.75-0.50c
Canada	1.3782-1.3810	1.3800-1.3810	0.21-0.24c

EURO-CURRENCY INTEREST RATES

Long-term Eurodollars: Two years 7-7¼ per cent; three years 7½-7¾ per cent; four years 7¾-8 per cent; five years 8-8¼ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EMS EUROPEAN CURRENCY UNIT RATES

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

MONEY MARKETS

A flicker of optimism

LONDON interest rates made several attempts to move lower last week. A slight increase in optimism pulled the three-month interbank offered rate below 10 per cent on the mornings of Thursday and Friday, but the performance of sterling did not allow the market to sustain its mood, and the rate finished back at 10 per cent each night, unchanged on the week.

UK clearing bank base lending rate 10 per cent since May 22

The optimism centred on the possibility of cuts in world interest rates, after some disappointing US economic statistics, which did not rule out another cut in the Federal Reserves discount rate at some time in the not too distant future. It was also rumoured that the July UK money supply figures will be a considerable improvement over recent months.

But overhanging the market was the weakness of sterling, as the pound continued to react nervously to oil price fluctuations and to some uncertainty about the political climate, particularly with regard to South Africa and the thorny problem of sanctions.

Even a very gloomy survey from the Confederation of British Industry could not convince the market that sterling could withstand an early cut in clearing bank base rates, in spite of the CBI highlighting the fact that rates are still very high by international standards.

Another factor pointing towards a period of continued stability in rates was the obvious reluctance of the West German Bundesbank to cut its discount rate, against a background of above target money supply growth.

NEW YORK RATES

(4 pm)

Broker loan rate	7½
Fed funds	6¼
Fed funds at intervention	6⅛
Treasury Bills & Bonds	
One month	5.52
Two month	5.65
Three month	5.92
Six month	6.03
One year	6.13
Two year	6.18
Three year	6.75
Four year	7.21
Five year	7.02
Seven year	7.21
10 year	7.33
30 year	7.45

BANK OF ENGLAND TREASURY BILL TENDER

	Aug. 1	July 18		Aug. 1	July 18
Bills on offer	£100m	£100m	Top Accepted rate of discount	9.5060%	9.6464%
Total of applications	£546m	£194m	Average rate of discount	9.6021%	9.5886%
Total allocated	£100m	£100m	Average yield	9.73%	9.36%
Minimum accepted bid	£97.63	£97.595	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	80%	54%			

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Aug. 1	change	NEW YORK	Aug. 1	change
Base rates	10	Unch'd	Prime rates	8	Unch'd
7 day interbank	9⅝	−⅛	Federal funds	6¼	Unch'd
3mth interbank	9⅞	Unch'd	3 Mth. Treasury Bills	5.94	−0.03
Treasury Bill Tender	9.5316	+0.0511	6 Mth. Treasury Bills	6.03	−0.09
Band 1 Bills	9⅞	Unch'd	3 Mth. C D	6.25	−0.09
Band 2 Bills	9⅞	Unch'd			
Band 3 Bills	9¾	Unch'd	FRANKFURT		
Band 4 Bills	9⅞	Unch'd	Lombard	5.5	Unch'd

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

FT LONDON INTERBANK FIXING

(11.00 a.m. August 1)

Three months US dollars		Six months US dollars	
bid 6 7/16	Offer 6 9/16	bid 6 7/16	Offer 6 9/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

MONEY RATES